

LO.a: Describe classifications of regulations and regulators.

1. 'Interpretation of courts' can be classified as:
 - A. statutes.
 - B. administrative law.
 - C. judicial law.
2. Laws that focus on the rights and responsibilities of entities and the relationship among entities are called:
 - A. Procedural laws.
 - B. Substantive laws.
 - C. Judicial laws.

LO.b: Describe uses of self-regulation in financial markets.

3. Analyst 1: All self-regulating organizations are independent regulators.
Analyst 2: Regulatory bodies may reference the work of outside bodies in their regulations.
 - A. Analyst 1 is correct.
 - B. Analyst 2 is correct.
 - C. Both analysts are correct.

LO.c: Describe the economic rationale for regulatory intervention.

4. Which of the following is *least likely* an economic rationale for regulatory intervention?
 - A. Information frictions.
 - B. Externalities.
 - C. Regulatory competition.

LO.d: Describe regulatory interdependencies and their effects.

5. Which of the following best describes a situation where a regulator is dominated by individuals who are closely connected with the industry they should be regulating?
 - A. Regulatory capture.
 - B. Regulatory competition.
 - C. Regulatory arbitrage.

LO.e: Describe tools of regulatory intervention in markets.

6. Which of the following regulatory tools will a SRO *least likely* use?
 - A. Restrictions on behaviors.
 - B. Provision of public goods.
 - C. Price mechanisms.
7. Analyst 1: Globalization of capital markets has increased concerns about contagion.
Analyst 2: Globalization of capital markets has increased concerns about regulatory competition.

- A. Analyst 1 is correct.
- B. Analyst 2 is correct.
- C. Both analysts are correct.

LO.f: Explain purposes in regulating commerce and financial markets.

LO.g: Describe anticompetitive behaviors targeted by antitrust laws globally and evaluate the antitrust risk associated with a given business strategy.

8. Which of the following is *least likely* an example of anticompetitive behavior?
- A. Mergers that create monopoly power.
 - B. Divesting a portion of a large company.
 - C. Exclusive dealings and refusal to deal.

LO.h: Describe benefits and costs of regulation.

9. Which of the following is *most likely* an unintended effect of regulation?
- A. Setting legal standards for contracts.
 - B. Establishing employer's rights and responsibilities.
 - C. Hiring additional compliance lawyers.

LO.i: Evaluate how a specific regulation affects an industry, company, or security.

10. Regulation Q imposed a ceiling on the interest rates paid by banks for various types of deposits. After regulation Q was imposed the demand for money market funds *most likely*:
- A. increased.
 - B. decreased.
 - C. remained unchanged.

Solutions

1. C is correct. Regulations can be classified as reflecting laws enacted by legislative bodies (statutes), rules issued by government agencies or other regulators (administrative regulations or administrative law), and interpretations of courts (judicial law).
2. B is correct. Substantive law focuses on the rights and responsibilities of entities and relationships among entities, and procedural law focuses on the protection and enforcement of the substantive laws.
3. B is correct. Not all self-regulating organizations are independent regulators. Self-regulating organizations are not regulators unless they are given recognition and authority, including enforcement power, by a government body or agency.
4. C is correct. Regulatory intervention is required because of the presence of informational frictions and externalities.
5. A is correct. According to the regulatory capture theory, the regulator is often dominated by individuals who are closely connected with the industry they should be regulating. In such situations the regulator might be more interested in enhancing the interests of the regulated entities rather than society.
6. C is correct. SROs are least likely to use price mechanisms. They typically regulate behaviors and often provide public goods in the form of standards.
7. C is correct. Globalization is likely to result in increased concerns about contagion and regulatory competition. It is easier for a financial shock to spread. Governments may use their regulatory environment as a basis to attract entities from around the world.
8. B is correct. Divesting a portion of a large company is not an anticompetitive behavior.
9. C is correct. The hiring of more lawyers to deal with compliance is an example of an ‘unintended’ implementation cost. Establishing legal standards for contracts and employers’ rights and responsibilities are objectives (intended consequences) of some regulation.
10. A is correct. Regulation Q set a ceiling on the interest rates paid by banks for various types of deposits, which resulted in investors’ shifting funds to money market funds.