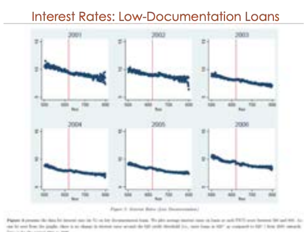
20-21-Lecture-Subprime-and-Acting-Wife

1 Is the *bunching* of low-documentation loans indicative of **adverse selection** or **moral hazard**?

- A Adverse selection of borrowers
- [x] Moral hazard by lenders
- C Both
- D Neither

2 Is the *lack of* a jump in interest rates to the right of FICO 620 consistent with moral hazard?

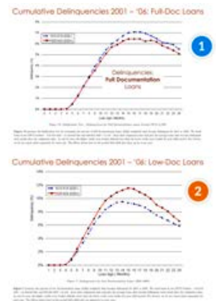


- [x] Yes – what we'd expect no jump
- B No – we'd expect a jump
- C Unclear – moral hazard makes no prediction

3 If there's **adverse selection** in low documentation loan origination, what should we expect to happen with loan delinquencies as FICO rises from <620 to ≥620?

- A Delinquencies jump <u>down</u> as FICO rises from <620 to ≥620
- [x] Delinquencies jump <u>up</u> as FICO rises from <620 to ≥620
- C Delinquencies are <u>smooth</u> across the discontinuity as FICO rises from <620 to ≥620

4 Which of these figures indicates adverse selection?



- A Figure **1**
- [x] Figure **2**
- C Both Figure **1** and **2**
- D Neither figure

5 Cleary, there's an incentive problem here. Does this incentive problem cause **adverse selection**, **moral hazard**, or **something else**

- A **Adverse selection**
- B **Moral hazard**
- C **Both adverse selection** and **moral hazard**
- [x] **Something else**