

Study Questions–Brealey–“Basel II: The Road Ahead or *Cul de Sac*?”

1. What is the big deal about measuring asset values with book versus market values?
2. At one point, Brealey says that banks exist only because of market imperfections. Explain.
3. How does bank distress affect real economic activity according to Brealey?
4. What is the connection between deposit insurance, moral hazard, and market discipline?
5. In general, are the 4% and 8% capital requirements of Basel I binding? What difference does it make?
6. What are risk buckets in Basel I and how do they determine the required amount of bank capital?
7. What are some problems with the current scheme of risk weightings?
8. What is meant by “prompt corrective action” and “gambling for resurrection?”