

1. Use the chapter “Engines of Economic Development” from Lamoreaux (1994) to answer the following questions:

a. Describe the asymmetric information problem faced by banks in the 1840s and 1850s. Did the practice of insider lending solve or exacerbate the asymmetric information problem?

b. Insider lending is still allowed in the U.S. today, however, the practice is highly regulated to ensure that loans to insiders match those of normal bank customers, effectively limiting the access to bank funds by insiders. Do you think that banks still face the same problems of asymmetric information today? Based on the evidence in the article, would you advocate for repealing modern insider lending laws?

2. Consider Table 2 and Table 3 in Olmstead and Rhode (2008).

1. What is the dependent variable in the regression? What are the independent variables used in column 3 of Table 2?

2. How do the first three columns of Table 2 differ from the first three columns in Table 3? Why can't we include New South as a covariate in the regression?

3. If you were running the regression in Table 3, what two additional variables would you want to include? What effect would you expect each of those variables to have?

3. The midterm is Tuesday March 10th. Have a look at the old Midterm #1 and #2 on the course website (There will be one combined midterm this year instead of two as in previous years).

a. What's one question you can't seem to figure out or are unsure of? Record it on the back, along with your best answer. I will compile your questions for next week.