

12) J. Boatright refers to the moral hazard problem. What is this? How is it related to the ethics of finance? Give an example of a moral hazard.

$\frac{3}{3}$ The moral hazard problem occurs when individuals take on more risk when they are insured. This occurs when individuals deciding on what risk and how much of that risk to take on, do not reap the consequences should things go wrong. This is related to the ethics of finance through fiduciaries. In these instances, individuals who decide on what to invest on, are doing so on behalf of their client. It is the client who will bear the consequences as opposed to the fiduciary. According to Boatright, the moral hazard problem occurs when people act differently when they are sheltered from consequences as opposed to when they bear the full consequences.

One example of a moral hazard is the rental car phenomenon. Individuals will drive more recklessly when they are insured vs. when they own their cars.

13) Why is N. Ferguson suspicious of what he calls the "American Dream" where everyone owns their home? What roles do lenders play in this "dream"? What is an example in recent economic history of this "dream" gone wrong?

N. Ferguson is suspicious of what he calls the "American Dream" and individuals owning their own homes because many people cannot actually afford to own their own home. In this instance, lenders play the role of facilitating this "dream". By allowing individuals to lend money and take out mortgages, lenders are enabling and facilitating individuals to buy their "own home".

An example in recent history of this "dream" gone wrong is the 2008 financial crisis. In this case, the credit bubble eventually got so large that it eventually popped and collapsed the entire market (largely due to subprime mortgages and lenders lending to people who couldn't pay back).

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14) What are the conditions for the war of all against all for Th. Hobbes? Why is equality a problem within these conditions? What role, if any, does free will play?

For Thomas Hobbes the conditions for the war of all against all are: equal ability + equal ends (survival, fortune, etc.) + scarcity.

Equality is a problem within these conditions because ~~the~~ ^{while} man is equal, and seeks equal ends, there are in fact a finite number of resources. Therefore, man will stop at nothing to appease his human nature ability to fulfill his desires. This leads to the inevitable problem of war + violence because resources are not and cannot be divided equally.

Therefore an absolute power (Sovereign) is required who is stronger than man's individual desires. Without an absolute power or Sovereign, nothing is unjust, and therefore nothing is just because there is no law.

Free will does not play a role in this because Hobbes doesn't believe in free will.

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$\frac{20}{20}$ Eff.

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