

Question 1 (weight: 20%)

Culture figures prominently in sustaining or losing trust and honesty.

- a. Drawing upon course materials identify and briefly describe at least three examples in which culture contributed to the loss of trust/honesty.
- b. What are the common themes across these examples?
- c. What actions could have been taken for each example to change culture to avert dishonesty/mistrust?
- d. Who should have taken these actions?

Question 2 (weight: 20%)

Passing the “tipping point” represents the time at which the slide to dishonesty and mistrust becomes inevitable.

- a. Identify at least four tipping points from the course materials.
- b. What were the common characteristics of tipping points?
- c. How did these tipping points relate to violation of the law?
- d. Why and how did they tip the scales in the wrong direction?
- e. What actions could have been taken to stop the slide from occurring?

Question 3 (weight: 20%)

Fiduciary duty is one mechanism for enforcing trust and honesty. Some have argued that if mortgage brokers owed a fiduciary duty to borrowers, fewer subprime loans would have been made.

- a. Based on the California Supreme Court’s decision in *City of Hope v. Genentech* (See attachment), what are the arguments for and against making mortgage brokers fiduciaries to borrowers? (A description of the mortgage brokerage business is provided in an attachment).
- b. Based on the decision of the California Supreme Court, do you conclude for or against a fiduciary duty of mortgage brokers?
- c. Outline a proposed federal regulation of mortgage brokers.

Question 4 (weight: 20%)

The board of directors serves as a critical backstop against corporate dishonesty. Nevertheless we saw boards that failed to fulfill this mission at E.F. Hutton, the New York Stock Exchange, Enron and others.

- a. In these cases or in other cases you are familiar with, what factors led to the boards’ failures?
- b. How would you design the ideal board? (Address at a minimum: ~~size,~~ composition, responsibilities, organization, and compensation)

Question 5 (weight: 20%)

We saw that inappropriate incentives can take individuals and entire corporations down the slippery slope to dishonesty. GovCorp's drive for EPS "at any cost" and KKI's desire to keep families in the lead paint study are two powerful examples.

- a. Describe the incentives of the individual participants in the mortgage securitization process that represent a risk to the financial system. (The securitization presentation is attached)
- b. What changes in the incentives would you recommend?
- c. Is there a current legal basis for your recommendations?
- d. If, not what laws or regulations would be necessary?