What is Financial Regulation?

Worksheet

Financial regulation is government oversight of financial institutions and markets to protect consumers, prevent fraud, and maintain system stability.

Questions

1. What is the main goal of financial regulation?

A) Maximize bank profits
B) Protect consumers and maintain market stability
C) Eliminate all risk
D) Control interest rates only

2. Which agency regulates stock brokers?

A) Federal Reserve
B) Treasury Department
C) Securities and Exchange Commission (SEC)
D) Federal Trade Commission

3. FDIC deposit insurance protects up to...

A) $50K per account
B) $100K per account
C) $250K per depositor per bank
D) $1M per account

4. What does 'Know Your Customer' (KYC) require?

A) Banks memorize customer names
B) Financial firms verify customer identity and assess risk
C) Customers must know all bank rules
D) No personal data collection

5. A bank wants to offer a risky investment. What regulation prevents misleading sales?

6. A customer loses money when a broker commits fraud. What protection applies?

7. Why do central banks set interest rate rules?

8. Define: What is financial regulation?

9. Define: Who regulates banks?

10. Define: What does the SEC do?

Answer Key

1. B) Protect consumers and maintain market stability — Regulation protects consumers from fraud and unfair practices while maintaining system stability.

2. C) Securities and Exchange Commission (SEC) — The SEC oversees securities markets and enforces laws against fraud.

3. C) $250K per depositor per bank — The FDIC guarantees up to $250K per depositor per bank account.

4. B) Financial firms verify customer identity and assess risk — KYC rules require firms to verify identity, prevent fraud, and assess money-laundering risk.

5. The Securities Act requires brokers to explain risks honestly (Know Your Customer rule). Banks must follow disclosure rules to protect consumers from fraud. Regulators fine banks that hide risks.

6. The Securities Investor Protection Corporation (SIPC) protects up to $500K in lost securities. Federal regulation requires brokerage insurance. Customer can file complaints with the SEC.

7. Central banks regulate money supply and credit to prevent inflation and recessions. Interest rates are a key regulatory tool. Controlled rates protect savers and borrowers from extreme swings.

8. Government oversight of financial institutions to protect consumers and maintain market stability.

9. Multiple agencies: Federal Reserve, FDIC, OCC, state regulators.

10. Enforces securities laws, prevents fraud, oversees stock markets and brokers.