ECON 612: MONEY AND BANKING
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THE ADVANTAGES OF F.I.S*
SOLUTIONS AND EXPLANATIONS

COLOR LEGEND

❀ HEADINGS

❀ GIVEN/PREVIOUSLY FOUND INFORMATION
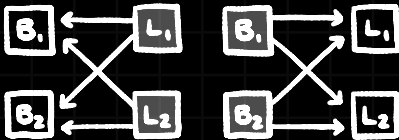
❀ CONCEPTS YOU SHOULD ALREADY KNOW

❀ ANSWER

〰 ANNOTATIONS AND
EXTRA EXPLANATIONS

GIVEN INFORMATION

$n_B = 2$
$n_L = 2$ $\Rightarrow x = 2$ THE NUMBERS ARE THE SAME, SO I'M JUST CALLING THEM "x" TO SIMPLIFY.

$C = \$25$

① DIAGRAM OF EVENT

B_1	L_1
B_2	L_2

B_1	L_1
B_2	L_2

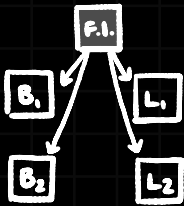THIS IS JUST MEANT TO HELP YOU UNDERSTAND WHAT'S HAPPENING IN THE QUESTION.

FINDING C_{NI}   "C_{NI}" IS THE COST WITH NO INTERMEDIARY

$C_{NI} = 2x^2 C$ SUBSTITUTE VALUES FROM GIVEN INFORMATION

$\qquad = 2(2)^2(25)$

$C_{NI} = \$200$

② DIAGRAM OF EVENT

F.I.

B_1 L_1

B_2 L_2

FINDING C_{FI}   "C_{FI}" IS THE COST WITH F.I.

$C_{FI} = 2xC$ SUBSTITUTE VALUES FROM GIVEN INFORMATION

$\qquad = 2(2)(25)$

$C_{FI} = \$100$

③ FINDING S

$S = C_{NI} - C_{FI}$ SUBSTITUTE VALUES FROM ① AND ②

$\qquad = 200 - 100$

$S = \$100$

The Advantage of F.I.s

Consider we have two borrowers, B_1 and B_2, and two lenders, L_1 and L_2. There is a $25 evaluation fee.

(1) What is the total cost of evaluations without an F.I.?

(2) What is the total cost of evaluations with an F.I.?

(3) What are the total savings with an F.I.?