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2 **Q. Reference: Page 24, Lines 25-26:**
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4 **“This “flight to quality” is a regular part of the business cycle.”**
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6 **When there is a flight to quality, does this typically mean that the costs of risky forms**
7 **of capital increase? Please explain the response.**
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10 **A.** Not necessarily, but it can. Flights to quality are generally associated with institutional
11 investors backing away from default risky debt and the disappearance of liquidity in the bond
12 market. As Dr. Booth explains in his testimony, liquidity often increases in the equity market
13 at the same time it decreases in the bond market so the bond and equity markets “march to
14 different drummers.”
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