**Group** 1

<http://www.counterpunch.org/toussaint01122008.html>

1. What are the roots of the financial crisis according to the article?

2. What is a CDO and what is a CDS? How do CDOs figure into the current crisis? To answer this, you might want to think about what happened to subprime lending when the CDO market dried up (meaning the CDO became something no one would buy) as described in paragraph 15:

The SIVs mentioned previously specialize in selling CDOs (Collateralized debt obligations) that many investors have been trying to get rid of since August 2007. As of mid-December 2007, default repayments of CDOs had reached a sum of 45 billion dollars . Since August 2007, the issuing of new CDOs has stopped as a result of the severity of the crisis.

3. How does the author describe risks and costs of the crisis will be shifted, i.e. who will bear the burden, and who should bear the burden?

4. Describe at least 2 of the financial “time bombs” for the economy mentioned in paragraph 20.

<http://blogs.wsj.com/economics/2008/10/23/greenspan-testimony-on-sources-of-financial-crisis/>

1. Why does Greenspan say, “I see no choice but to require that all securitizers retain a meaningful part of the securities they issue.” Explain in terms that would make sense to someone who has never taken an economics class.

------------------------------------------------------------------------------------------------------------

**Group** 2

The own-to-rent solution:

<http://tpmcafe.talkingpointsmemo.com/2007/08/19/own_to_rent_the_way_to_save_su/>

1. What is the own-to-rent solution? Who elects the option, and at what point? What if the bank sells the house?
2. How does this plan affect neighbor homeowners?
3. How is the current crisis a Wall Street vs. Main Street conflict?

<http://money.cnn.com/2008/07/14/news/economy/fedrules/index.htm?cnn=yes>

1. What did you think of the fact that a rule had to be passed against mortgage brokers “saying a rate is fixed when it can change”? How do mortgage brokers gain from the situation where they have been allowed to call a variable, adjustable rate mortgage “fixed”? How is the borrower impacted?

2. What did you think of the fact that “In a nod to the brokerage industry, the Fed withdrew a proposal requiring additional disclosure of the ‘yield-spread premium,’ which allows banks to pay brokers for steering homeowners into higher-priced loans”? What incentives do these payments create for brokers? Why should these payments be legal or illegal?

------------------------------------------------------------------------------------------------------------

**Group** 3

<http://www.nytimes.com/2007/12/06/washington/06cnd-debt.html>

1. “Secretary [Henry M. Paulson Jr.](http://topics.nytimes.com/top/reference/timestopics/people/p/henry_m_jr_paulson/index.html?inline=nyt-per) argued that lenders should try to work out new terms on a case-by-case basis. But Mr. Paulson and federal banking regulators became increasingly impatient with the industry’s failure to produce a systematic, rapid approach to evaluating borrowers.” Why is there a “but” in this quote? Is there a conflict between Sec Paulson’s desire for a systematic resolution and his reluctance to regulate?

2. Explain why this is or is not a problem in the mortgage (home loan) market: “Some analysts say that more than a third of all subprime borrowers could have qualified for cheaper conventional loans at the outset.”

3. President Bush said: “Some borrowers took out loans they knew they could not afford. And to compound the problem, many mortgages are packaged into securities and sold to investors around the world.” It’s clear enough how the first sentence says borrowers are partly to blame. Explain how the second sentence says someone else is also to blame.

Critique of Dec. ’07 plan:

<http://www.illinoisattorneygeneral.gov/pressroom/2007_12/20071206b.html>

1. Illinois Attorney General Lisa Madigan on the Dec 07 law is critical of White House Plan – why is she critical?

2. Analyze how effective at least two of her proposals will be to address the crises.

------------------------------------------------------------------------------------------------------------

**Group** 4

<http://www.rollingstone.com/politics/story/29127316/the_great_american_bubble_machine> (Editor’s note: make sure you click “next” to read all pages of the article)

1. What are the bubbles that occurred and what was Goldman Sachs role in each (describe separately)?
2. How are these bubbles similar?
3. What is the next bubble Taibbi foresees and what is Goldman’s role in that?
4. How did Goldman make money when the housing market collapsed and other financial institutions were taking massive losses?
5. Which activities during the Internet IPO craze and subprime housing boom were illegal enough that Goldman paid a fine or settled litigation with the claimants? What was the impact of these legal cases on Goldman’s behavior?
6. What tax rate did Goldman pay and how does that compare to its CEO’s pay and other employee compensation statistics?

------------------------------------------------------------------------------------------------------------

**Group** 5

<http://www.propublica.org/article/banks-favorite-toothless-regulator-1125> Esp. photograph, even just photo and caption if rights too much/too slow

1. What is the significance of this article’s 2003 photo to banks and non-bank financial institutions like AIG and Countrywide?

Be sure to describe the relevance of the following people (A and B specified below) to be posing in such a photo-op:

“This photo from 2003 shows two regulators: **(A)** James Gilleran of the Office of Thrift Supervision (holding the chainsaw) and John Reich (then Vice Chairman of the FDIC and later at the OTS, second from right), along with **(B)** representatives of three banker trade associations. (FDIC/OTS file photo)

2. What is regulator shopping?

3. Explain how two specific actions by the Office of Thrift Supervision contributed to the subprime bubble. The two specific actions mentioned in the article were (1) with regard to appraisers and (2) when the “Office of the Comptroller of the Currency (OCC)…made a move to…make sure that borrowers could afford their monthly payments on adjustable-rate loans after the rate reset”.

Opinion Survey:

<http://www.gallup.com/poll/106114/Six-Oppose-Wall-Street-Bailouts.aspx>

1. Do Americans lean toward helping banks or struggling homeowners? How is this poll asking a Wall Street vs. Main Street question?

2. What questions were asked in the poll? How would you respond to these questions, and why?

3. What is the "too big to fail" concept?

\*4. What does this mean? “In fact, swooping in to rescue struggling homeowners could be crucial in offsetting consumer resentment toward the Fed over its Wall Street bailout.”

------------------------------------------------------------------------------------------------------------

**Group** 6

Fannie Mae bailout suggested by (Treasury Secretary) Paulson:

[www.businessweek.com/bwdaily/dnflash/content/jul2008/db20080715\_178267.htm](http://www.businessweek.com/bwdaily/dnflash/content/jul2008/db20080715_178267.htm)

1. What are Paulson’s proposals and what is the argument for why they would help?

2. What does this mean? “If you have a squirt gun in your pocket, you may have to take it out," he said. "But if you've got a bazooka in your pocket, you may not have to take it out."

3. What is naked short selling, why do some consider it a problem, and who temporarily banned the practice?

The Financial Reform Bill of 2010, a.k.a. the Dodd-Frank Act.

<http://www.nytimes.com/2010/06/27/business/27gret.html?_r=1&ref=fair_game>

<http://www.economist.com/node/16481494>

1. What are the three best parts of the Dodd-Frank Act and what are its three worst aspects? Use quotes and reasoning in your own words to support your answer.

2. “Much depends on how American regulators implement its provisions.” What will be the main factors determining the effectiveness and enforcement of provisions in the Dodd-Frank Wall Street reform bill?

\*3. Explain why you predict it will be effective reform or why/where do you think it will be (in the article’s description) on the spectrum between “interpret(ing) the new rules in the friendliest possible way to Wall Street” and regulatory “overreach—stifling innovation”?

4. Which of these did the new Dodd-Frank Law do something to address (pick the best answer):

1. Fannie Mae and Freddie Mac
2. Too big to fail
3. Exact implementation guidelines for affected agencies
4. Securitizers are required to retain part of the securities they issue

5. Which of these did the new Dodd-Frank Act **fail** to address:

1. Creating a Consumer Financial Protection Agency
2. Creating a resolution authority – a system of orderly “winding down” of troubled financial firms
3. GSEs
4. Rules about banks’ involvement in derivatives

**Group** 7

<http://www.forbes.com/2008/09/26/wamu-morgan-deposits-oped-cx_lw_0926white.html>

1. What accounts for the huge gap between “The net assets acquired by JP Morgan Chase had a nominal value of around $240 billion” and the $1.9 billion JP Morgan paid for WaMu’s Assets?

2. How does having JP Morgan Chase take over WaMu have benefits and also pose threats to the economy? Hint: you might include how this and similar takeovers can worsen and improve the “too big to fail” problem. Propose another solution for Washington Mutual that would have been more ideal than the JP Morgan takeover.

[http://www.bis.org/publ/work163.pdf](http://www.bis.org/pusbl/work163.pdf) (See pages 10-12)

A report about the Bond Rating Agencies including the concept of “Ratings Shopping,”

1. What is ratings shopping?

2. What is the concern or fear about what can happen when investment banks who create CDOs are allowed to decide which agency will rate the instrument?

3. Why isn’t there the same fear (induced by the possibility of ratings shopping) you see with derivatives such as CDOs when it comes to the same agencies rating typical corporate bonds?

\*4. Who are the three major credit rating agencies for Personal Credit – the ones who determine your credit rating?

\*5. Why isn’t there a possibility for rating shopping in the personal credit market? What would be the effects if there was that possibility?

\*6. How would such a standard (the same one as for personal credit) work for rating derivatives such as CDOs?