

Credit Default Swaps - Excerpt from Inside Job (35:00 - 42:30)

Key Vocabulary - Match the words below to their definitions

to gut / nuts / insolvent / a ticking time bomb / own / bonus / on the hook / flippant / a warning / to hit the nail on the head / to claim something / vocal / a luddite

- 1) If something is _____ it is marked by disrespectful levity or casualness.
- 2) A person who is _____, tends to express oneself often or freely; outspoken.
- 3) If a company is _____, it unable to pay its debts.
- 4) If you _____ something, it belongs to you.
- 5) _____ is statement or event that indicates a possible or impending danger, problem, or other unpleasant situation.
- 6) _____ is to extract essential or major parts of something.
- 7) _____ is extra money given to an employer for good performance.
- 8) _____ is to describe exactly what is causing a situation or problem.
- 9) _____ is a problematic situation that will eventually become dangerous if not addressed.
- 10) _____ is a person opposed to increased industrialization or new technology.
- 11) If you are _____, you are in a difficult situation.
- 12) If something is _____, it is insane; crazy.
- 13) _____ is to state or assert that something is the case, typically without providing evidence or proof.

Answer the following questions before watching the excerpt.

Who is Larry Summers?

What is the SEC?

Watch the excerpt and complete the following questions or tasks.

- 1) What is leverage? What happened to it during the housing bubble?
- 2) What did Henry Paulson do in 2004?
- 3) What could possibly happen if an investment bank leverages up 33 to 1?
- 4) Why was AIG considered a ticking time bomb?
- 5) How many CDSs did AIG in London issue leading up to the crises and what did most of the swaps cover defaults on?
- 6) What was the basic thesis of Raghuram Rajan's paper?
- 7) How was Rajan's paper received?