

Derivatives - Excerpt from Inside Job (22:50 - 31:00)

Key Vocabulary - Match the words below to their definitions

a weapon / to gamble / a bet / to be appointed / to oversee / destabilizing / the receiver / to rely on / a bill / a burden / over-the-counter (OTC) / profitable / a mortgage / a rating / a retirement fund / to pump out sth / a fee / an incentive

- 1) _____ is to direct or supervise.
- 2) _____ is a classification of someone or something based on a comparative assessment of their quality, standard, or performance.
- 3) _____ is a complete telephone handset.
- 4) _____ is to produce a lot of something.
- 5) _____ is to play a game in which you can win or lose money or possessions.
- 6) If something is _____, it yields advantageous returns or results.
- 7) If something is _____, it is not listed or available on an officially recognized stock exchange but traded in direct negotiation between buyers and sellers.
- 8) _____ is a payment made for professional advice or services.
- 9) _____ is a draft of a law presented to a legislature for enactment.
- 10) _____ is a thing designed or used for inflicting bodily harm or physical damage.
- 11) _____ is to be selected or designated to fill an office or a position.
- 12) _____ is money used by an employer to facilitate and organize the investment of employees' pension contributed by the employer and employees.
- 13) _____ is either a thing that motivates or encourages one to do something or a payment or concession to stimulate greater output or investment.
- 14) _____ is a debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments.
- 15) _____ is to depend on, put trust in with confidence.
- 16) _____ is an agreement in which people try to guess what will happen and the person who guesses wrong has to give something (such as money) to the person who guesses right.
- 17) If something is _____, it upsets the smooth functioning of something.
- 18) _____ is something that is oppressive or worrisome.

Watch the excerpt and complete the following questions or tasks.

Key background information:

Enron is an energy company that reported financial health, despite actually being bankrupt, through institutionalized, systematic, and creatively planned accounting fraud, known now as the Enron scandal. Enron has since become a well-known example of willful corporate fraud and corruption.

Larry Summers is an American economist. He served as United States Secretary of the Treasury from 1999 to 2001 under President Bill Clinton. He was Director of the White House United States National Economic Council for President Barack Obama from January 2009 until November 2010. In 2013, Summers emerged as one of two leading candidates to succeed Ben Bernanke as head of the Federal Reserve System in 2014.

The SEC (Security and Exchange Commission) is an agency of the United States federal government. It holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

- 1) What two factors lead to the explosion of the derivatives market?
- 2) By the late 1990s, how much was the derivative market worth?
- 3) What happened in May 1998 and the summer of 2000?
- 4) What is the securitization food chain?
- 5) Simply put, what is a CDO and what role does it play in the securitization food chain?
- 6) Why did mortgage loans nearly quadruple every year between 2000 and 2003?
- 7) What is a subprime loan?
- 8) Why did bankers have more incentive to make subprime loans?