Your assignment is to view the Academy Award-nominated documentary Inside Job. The film looks at the causes and consequences of the global economic crisis of 2008. The film fits in with the lectures on free market theory and the book we are reading by Naomi Klein, Shock Doctrine: The Rise of Disaster Capitalism. Inside Job looks at how the deregulation of the financial industry led to a global economic disaster that cost tens of millions of people their jobs, homes and savings. In order to help you understand the film, follow along with the following questions in mind.

1. Deregulation of the financial industry began in the 1980s. What were the examples of deregulation and what were the consequences in the 1980s, and 1990s?

2. In 2000 what was the response from the Clinton administration and congress to the attempts to regulate the derivative market.?

3. How did deregulation lead to the housing “bubble” and its collapse? What were the role of subprime mortgages and speculation in the creation and collapse of the “bubble”?

4. What were the consequences of the 2008 economic crisis? How was it dealt with by the Bush Administration? The Obama Administration? Who was chosen to deal with it?

5. What was the role of professional academics, professors of economics, in the crisis?

6. Who was held accountable and where are we now?

Definitions:

1. Derivatives are “financial innovations” that can be traded in the financial market place

(CDOs) are an example.

2. Collateralized debt obligation (CDOs) are thousands of debts (mortgages, credit card debt, student loans) bundled together and sold as securities (types of investments). The purchaser of the CDO expects to make money by collecting the payments.

3. Credit default swaps are a type of insurance a seller takes out with a third party so that the seller gets paid by the insurance company even if the buyer defaults. Anyone not involved in the initial transaction and with nothing to risk can purchase this type of insurance..

4. Revolving door is a system where people from an industry enter the public sector (government)-Henry Paulson- serve the interests of their industry and then go back to their industry.

5. Investment bank is different from a commercial bank where you have your savings and checking accounts. A commercial bank, until deregulation, was highly regulated and could not speculate in risky investments with your money. But that is what an investment bank does for its clients. An investment bank creates or discovers investment opportunities for its clients, like the very risky CDOs.

6. Subprime mortgages are mortgages with a higher interest rate because the borrower is a greater risk to repay the mortgage. Many subprime mortgages were given to people who qualified for better mortgages.