

Financial Crisis of 2008

NEW YORK TIMES and WALL STREET JOURNAL BESTSELLER

The Inside Story of J.P. Morgan and How
Wall St. Greed Corrupted Its Bold Dream and
Created a Financial Catastrophe

FOOLS

GOLD

"A gripping and
indispensable
book."
—*The
New Yorker*

GILLIAN TETT

UPDATED WITH NEW PREFACE AND AFTERWORD

Tett, Gillian. *Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe*. Free Press, 2009.
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SOME BASICS from Tett:

Derivatives - financial instrument whose value derives from an underlying asset; buying and selling them entails betting on the future value of that asset

CDSs – Credit default swaps – derivatives linked to credit, i.e. buying “insurance” against risk of credit defaults; “securitize” them by putting them into bundles with risk separated into tranches with different levels of risk

CDOs – collateralized debt obligations – standardized versions of CDS w/ many single tranche levels of risk; riskier but higher returns

Motivation for using financial products like credit derivatives and CDOs:

- 1) idea that this kind of “insurance” would disperse credit risk; however, could also greatly magnify risk depending on how used (spreading around risk also meant interconnecting risk)
- 2) Banks wanted to get credit risk off books so they could lower their credit reserves and free up money to give more loans
- 3) To hide the risk, they created shell companies (SPVs and SIVs) that “owned” risk related to these products but were not declared on their books – creating a shadow banking economy invisible to investors, regulators, and the banks themselves

HOW DO THESE INSTRUMENTS BECOME LINKED to MORTGAGES and CREATE A HOUSING CRISIS?

- In 2000, subprime CDOs were worth \$80 billion - less than a tenth of all mortgage bonds;
- by 2005, subprime mortgages were at \$800 billion (half of all mortgage-linked bonds)

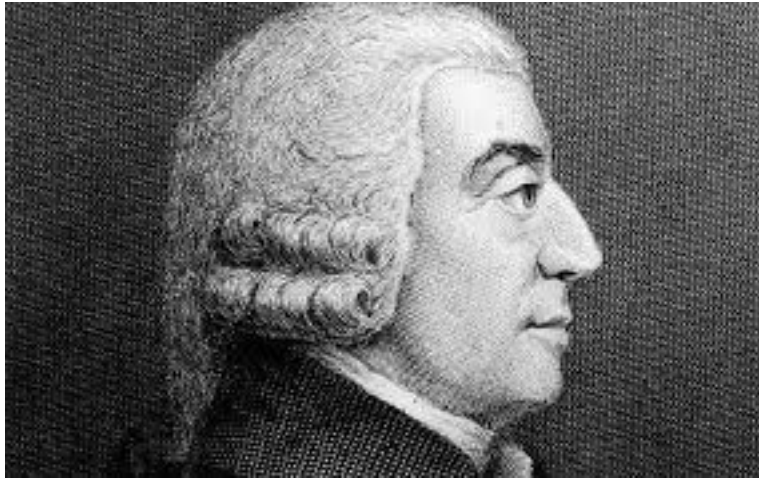
According to Gillian Tett's analysis, reasons for financial crisis of 2008 include:

- social silence
- technical silos
- over-reliance on mathematical models

Concluding Conversation

ADAM SMITH

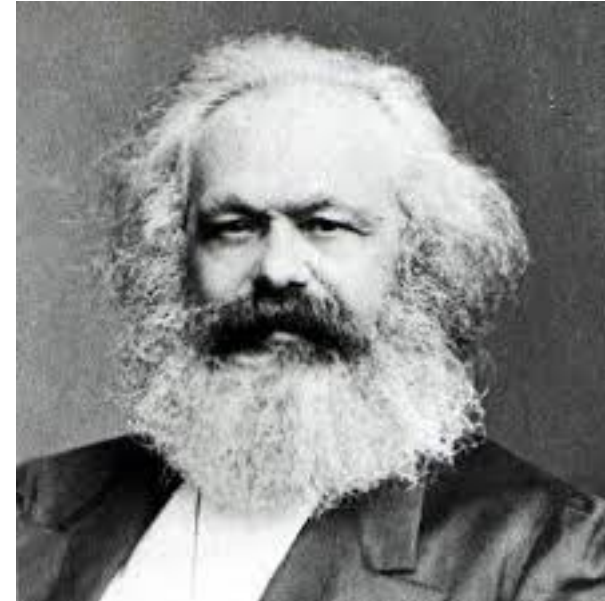
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KARL MARX

1818-1883



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Capitalism: good or bad? Production of wealth vs. exploitation and instability?

What is the relationship between capitalism and the non-economic domains of “culture”, beliefs, & identity?

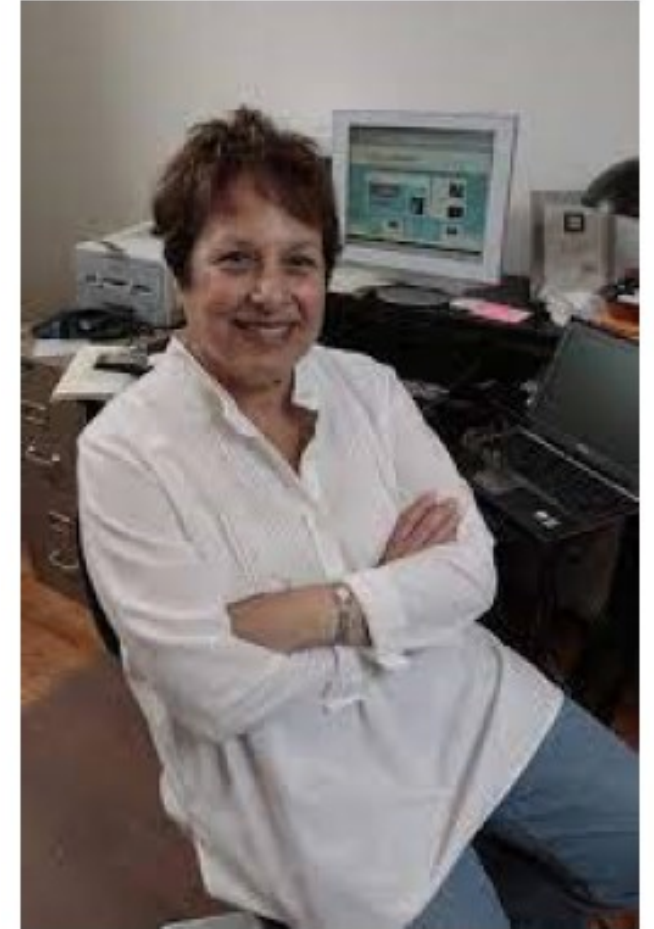
Max Weber, Pierre Bourdieu, Sherry Ortner



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Karl Polanyi vs. Friedrich Hayek – Post-World War II debates: What role should governments play in markets?



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Racial Capitalism

Satnam Virdee & Cedric Robinson

How is racialization at the heart of capitalism?



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How is capitalism changing in the contemporary world?

(David Harvey, Guy Standing, Karen Ho, David Weil, J.K. Gibson-Graham):



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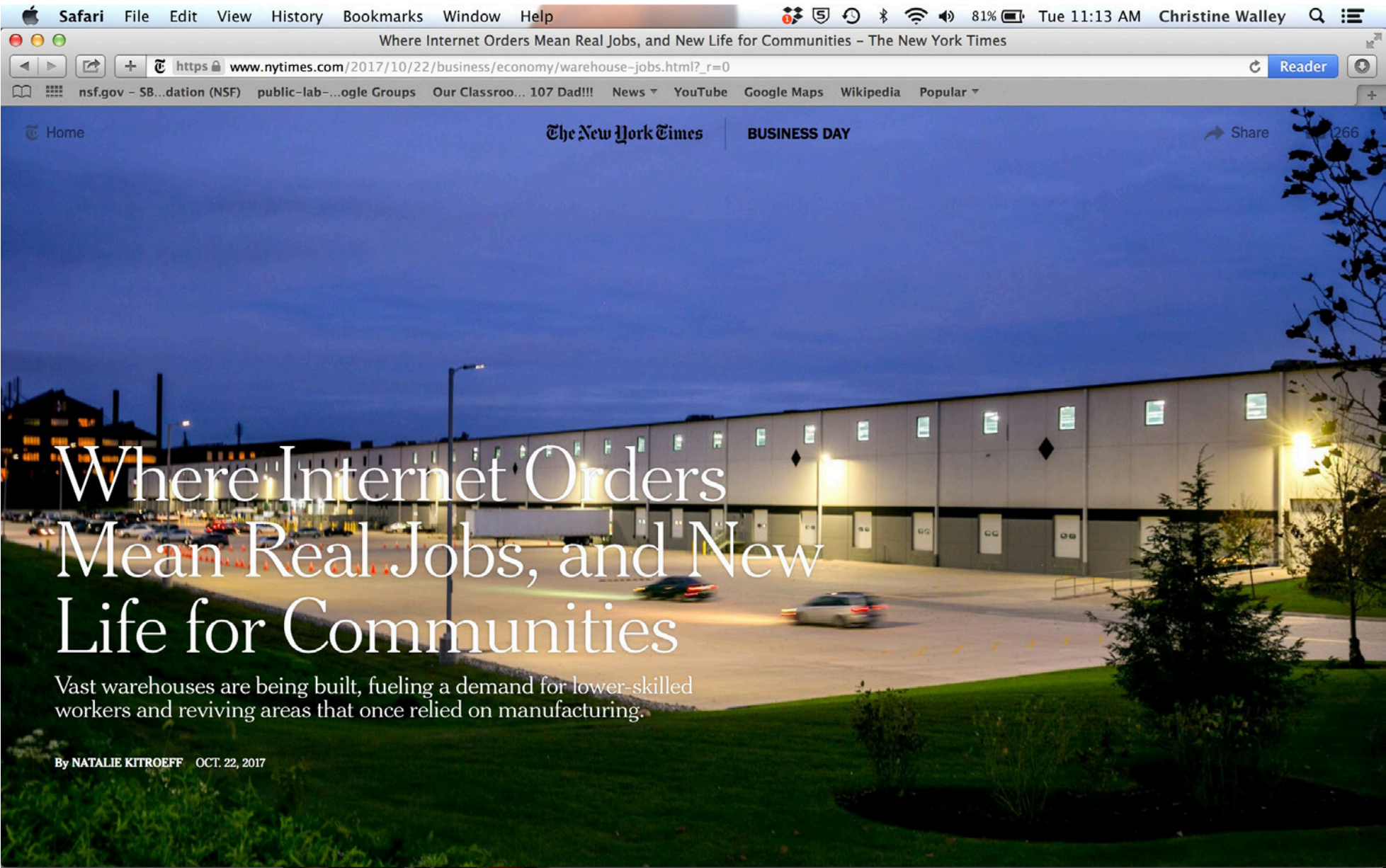


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HOW DO OUR THEORIES MATCH UP AGAINST A
FOCUS ON EVERYDAY LIFE?



Kitroeff, Natalie. "Where Internet Orders Mean Real Jobs, and New Life for Communities," *New York Times*, October 22, 2017. © The New York Times Company. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.



Ellen Gaugler fulfills orders for Zulily on the site of the Bethlehem Steel mill where she once drove her father to work. Sam Hodgson for The New York Times

BREAKING NEWS John Conyers Jr., the longest-serving House Democrat, said he's stepping down today following allegations that he sexually harassed employees 10:47 AM

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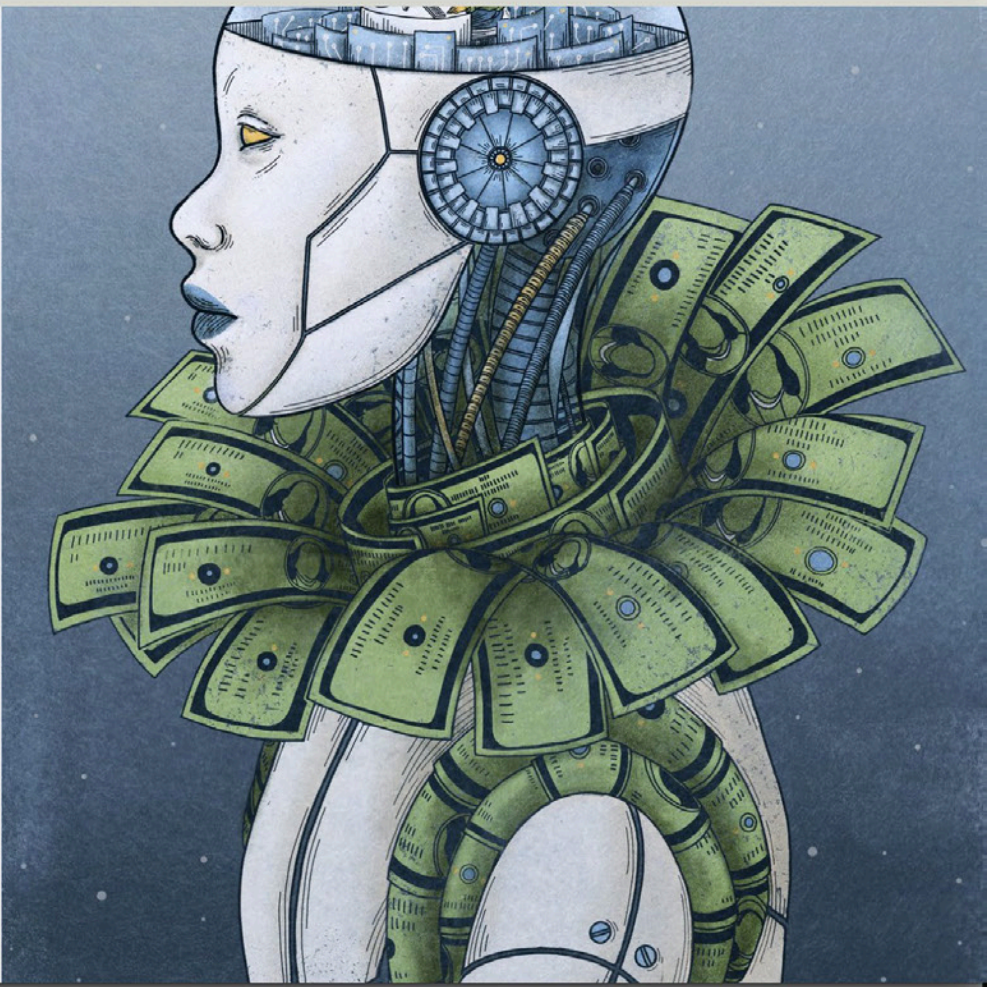
TECHNOLOGY Share 149

Tech Giants Are Paying Huge Salaries for Scarce A.I. Talent

Nearly all big tech companies have an artificial intelligence project, and they are willing to pay experts millions of dollars to help get it done.

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By CADE METZ OCT. 22, 2017




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Shocker PART TWO: 40% of Workers Now Have 'Contingent' Jobs, Says U.S. Government - Forbes.pdf

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Shocker: 40% of Workers Now Have 'Contingent' Jobs, Says U.S. Government

Continued from page 1

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In 2009, 41.2% of staffing agency jobs were for blue collar work, compared to 27.8 in 1990. At the same time, traditional office work is less commonly done through agencies. Only 23.4% of staffing agency workers now do this administrative work, compared to 41.8% in 1990.

Of course, not all contingent workers are hanging by a thread economically



Pofeldt, Elaine. "Shocker: 40% of Workers Now Have 'Contingent' Jobs, Says U.S. Government." *Forbes*, May 25, 2015. © Integrated Whale Media Investments, China and the Forbes Family. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

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Trump's Tax Promises Undercut by CEO Plans to Help Investors

By **Toluse Olorunnipa**
November 29, 2017, 4:00 AM EST Updated on November 29, 2017, 1:43 PM EST

- Corporate leaders say tax cut proceeds will go to shareholders
- President has said corporate tax cut will boost hiring, wages

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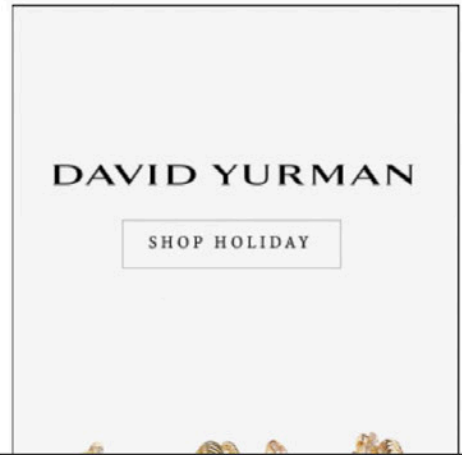
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A REPORTER AT LARGE JANUARY 30, 2017 ISSUE

DOOMSDAY PREP FOR THE SUPER-RICH

Some of the wealthiest people in America—in Silicon Valley, New York, and beyond—are getting ready for the crackup of civilization.

 By Evan Osnos



PICK ONE IDEA FROM A READING THAT YOU FOUND COMPELLING AND SUGGEST WHY?

PICK OUT ONE ISSUE RAISED IN ONE OF THE READINGS THAT YOU THINK IS IMPORTANT ISSUE TO ADDRESS?

HOW DO WE BRING THE ENVIRONMENT INTO THESE CONVERSATIONS?

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21A.461 What is Capitalism?
Fall 2021

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