

# Financial Literacy Study Guide

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## ***Financial Literacy: Wall Street and How it Works***

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### **Welcome to the Financial Literacy Study Guide!**

#### **Financial Literacy Study Guide Goals:**

1. Enhance your global awareness by studying and engaging in civil conversations with your conversation group about understanding, analyzing, and critiquing the global economy.
2. Apply a holistic four-dimensional approach to the global economy conversation topic called SEEK—see, evolve, engage, and know—to become more globally aware, better understand others, and create positive change in your community and world.
3. See different perspectives and learn about different ways of viewing the global economy.
4. Explore evolving your attitudes and skills, to compassionately interact with and understand those who are different from you within a safe and welcoming conversational setting.
5. Investigate ways to possibly engage with others in creating positive change in your local, national, and global communities.

#### **The Conversation Guides**

The study guide consist of two parts.

Part 1:

- Introduction to the program
- Question for each chapter in the Financial Literacy book following the SEEK approach—see, evolve, engage, and know
- Additional resources

Part 2:

- Additional materials in a separate pdf that may include charts, seek-and-find word puzzles (fun!), media recommendations, and other resources.

If you have any questions, concerns, or suggestions please email us at [info@global-awareness.org](mailto:info@global-awareness.org) and we will be glad to help.

*Enjoy your experience!*

*Kind regards,*

*Dr. Denise R. Ames*

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## Chapter 1: The Financial Sector: An Overview

### Chapter 1.1 Conversation Starters

#### Know

1. What is your reaction to the quote by Abraham Lincoln at the beginning of the chapter?
2. What lessons did you learn from reading about the Ponzi scheme?

#### See

1. When you hear the term the financial sector, what images come to your mind? Are they positive, neutral, or negative?

### Chapter 1.2 What is the Financial Sector

#### Know

1. Before delving into the book, how would you describe the financial sector?

#### See

1. Do you think it is odd for the author to start out the chapter describing a scam?
  - a. Why do you think she did it?

### Chapter 1.3 An Overview of Economic Systems

#### Know

1. What two economic systems does the author divide the world into?
  - a. Describe each one.
2. Make a list of similarities between communist and capitalist economies?
  - a. Are you surprised about the similarities? Explain.
3. Describe capitalism and its different versions.
4. How and why did John Maynard Keynes shape managed capitalism?
5. How and why did Karl Marx shape communism?
  - a. What is the goal of communism/socialism?
6. What is state capitalism?
  - a. How is it different than socialism and capitalism? How is it similar?

#### See

1. From the brief descriptions of the five global economic systems, which one do you prefer? Explain.

### **Evolve**

1. If you could take pieces of all global economic systems and forge them into a “perfect” economic system, what would it look like according to your plan?

## **Chapter 1.4 Five Sectors of the Global Economy**

### **Know**

1. Briefly describe the five sectors of the global economy?

### **See**

1. What sector of the economy do you think is the most vital in generating wealth? Explain.

## **Chapter 1.5 The Rise of the Financial Sector**

### **Know**

1. What has been a major problem with the financial sector since the 1980s?

2. What does it mean when the author states that “the outsized and excessive growth of the financial system did little to create any ‘added value’ for investors?”

3. What was the difference between the government’s treatment of the banks and the auto industry in the financial crisis of 2008?

### **See**

1. Do you think it was fair the way the government treated the banks and auto industry differently during the financial crisis of 2008?

2. Why do you think finance has attracted intelligent, highly educated workers?

3. Do you think it is important for a stable economy to maintain a balance between the different economic sectors? Explain.

4. Do you think that overproduction played a role in the shift to the financialization of the economy?

### **Evolve**

1. If you think the financial sector has mushroomed into a powerhouse over the years, how would you have prevented it from doing so?

2. If you think there is a split between Main Street and Wall Street, how would you frame or convey this concept to others?

## **Chapter 1.6 The Crisis of the 1970s and Three Responses**

### **Know**

1. Why did the golden era of capitalism come to an end in the 1970s?
2. What groups fought for economic supremacy in the 1970s?
3. The economic crisis of the 1970s resolved in favor of what groups?
4. Describe three dimensions of the global economy.
5. Why did financialization take off after the crisis of the 1970s?
6. What is the disconnect between Main Street and Wall Street?

### **See**

1. Which dimension of the global economy is the most important in your estimation?
2. What do you think are the ramifications of the disconnect between Main Street and Wall Street?
3. Do you think financialization has helped the U.S. and world economy?

### **Evolve**

1. If you lived through the 1970s or know someone who did, describe how the economic turmoil affected you or your acquaintance.

## **Chapter 1.7 The Economic Philosophy of the Financial Sector**

### **Know**

1. What is the Efficient Market Theory?
2. What was the economic philosophy of the Austrian School?
3. How did Frederich Hayek influence economic thought?
4. What did the economic philosophy coming out of the University of Chicago and other areas think of the role of the government in the economy?
5. What role did Adam Smith's ideas have in shaping the economic climate in the late 1970s and 1980s?

See

1. What economic philosophy do you most closely associate with? Why?

## Chapter 1.8 Short-Term Thinking

Evolve

1. Do you think Americans think and act in the short-term or long-term? Give examples.
  - a. What type of thinking, short-term or long-term, would you recommend as the best? Explain.

## Chapter 1.9 Recklessness: The Master Narrative

See

1. Do you think risk-taking is part of the American story?
2. Do you see greed as playing an important part in the financial crisis? How much of a part?

Evolve

1. How has your attitude about recklessness as a master narrative in the United States changed after reading this section of the book?
2. What do you think would be a more life-enhancing master narrative for Americans to embrace?
  - a. Do you think a new narrative is needed?

Engage

1. If you think recklessness is part of the American story or narrative how can you and/or your group communicate this narrative to others. You may want to create a collage, power point presentation, lecture, story, or poem to communicate this narrative.
2. You may also want to expand on the evolve question 2 above and create a more life-enhancing narrative for Americans to embrace. What values do you think should be expressed? You may want to create a collage, power point presentation, lecture, story, or poem to communicate this narrative.

## Chapter 1.10 Concluding Insights: An Overview of the Financial Sector

See

1. What do you think is the other side of risk?
2. Do you agree with the author, when she states that excessive risk-taking continues to be the master narrative in the political and economic arena?

## Chapter 1.11 Wrap-up Conversation Questions

### See

1. Do you think risk-taking or recklessness is a general characteristic of the American story or narrative? Does it apply to other countries?

### Evolve

1. In the current neoliberalism era, how does the financial sector play out in the global economy?
2. How does financial sector affect your life?
  - a. Does it affect your daily life?



## Chapter 2: Financial Crises

### Chapter 2.1 Conversation Starters

#### See

1. What does the quote by economist Nouriel Roubini mean to you?

#### Evolve

1. Have you ever experienced a financial crisis in your life? If so, was this experience related to the national and/or international economy or only connected with your own problem?
  - a. How did you overcome this crisis?

### Chapter 2.2 Patterns of Financial Crises

#### Know

1. How does the author connect the phenomenon of a black swan with financial crises?
2. Why are humans slow to recognize rare and novel events?
3. What is the typical path of financial crises?
4. What happens when the bubble bursts in a boom?

#### See

1. Why do you think that Wall Street financiers and the general public can't recognize a bubble when there is one?

#### Evolve

1. What recommendations can you make to change the tendency for humans to be caught off guard or slow to recognize rare and novel events?

### Chapter 2.3 Terms and Definitions

#### Know

1. What is a bubble?
2. What is the difference between a crash and a correction?
3. Give examples of each of the 10 Patterns of a Financial Crisis listed in your book.

### Chapter 2.4 Crises Before 1980

*Tulip Mania***Know**

1. Why did Tulip Mania occur in 17<sup>th</sup> century Netherlands?
  - a. What was the result of the crisis?
2. What did the Dutch government do about the crisis?

*South Sea Bubble***Know**

1. What did the British government do during the bubble and crash?

**Evolve**

1. How did hubris get in the way of British investors who were trying to employ rational analysis of the South Sea Company?

*Panics of the 1800s***Know**

1. What was the primary reason for the panics of the 1800s?
2. In what ways were the panics of 1873 and 1893 global panics?

**See**

1. In your opinion, why didn't governments step in to try and smooth out the volatile economy in the 1800s?

*The Crisis of 1907***Know**

1. What role did J.P. Morgan play in the crisis of 1907?
2. What were the consequences of the crisis of 1907?

*Florida Land Boom of the 1920s***Know**

1. How did the Florida Land Boom follow the classic 10 patterns of a financial crisis?

### *The Roaring 1920s and Stock Market Crash of 1929*

#### **Know**

1. What does the quote by Richard Salsman mean to you?
2. Did anyone try to tamp down the stock market exuberance during the 1920s?
  - a. How was their advice received?

#### **See**

1. Do you think the government should have played a role in regulating the stock market in the 1920s?
  - a. If you answered yes, what role do you think that should have been?
  - b. If you answered no, why not?
2. What do you think were the three primary reasons for feeding the stock market frenzy during the 1920s?

#### **Evolve**

1. If you were an advisor to President Hoover, what would you recommend that he should do in response to the Stock Market crash of 1929 and the following depression?

## **Chapter 2.5 Depression Era Regulations**

#### **Know**

1. Why did New Deal reforms prevent the occurrence of depressions or recession for about 80 years?
2. Describe the top three financial reforms of the New Deal era?
3. Explain the impact that John Maynard Keynes had on the economy from 1930s to 1980s?

#### **See**

1. What financial reform in the New Deal era do you think was the most significant?
2. Do you see Keynes' economic policies as successful or unsuccessful? Explain.

## **Chapter 2.6 Financial Crises: 1970s Onward**

#### **Know**

1. Why didn't Keynesian policies work to stabilize the economy in the 1970s?

#### **See**

1. Why do you think that global financial crises proliferated in the period 1970-2007?

*The Dot-com Bubble (1995-2000)*

**Know**

1. What role did technology play in the dot-com bubble?

**Evolve**

1. What is a lesson/s we can learn from the dot-com bubble?

*Japan's Asset Price Bubble (1980s onward)*

**Know**

1. What was (is) the difference between the U.S. and Japanese economic model?

2. What do you think was the main cause of Japan's economic woes?

**See**

1. Do you think the Japanese economic model developed by Finance Minister Hayato Ikeda would be a good fit for the U.S. or other economies? Explain.

**Evolve**

1. If you were advising the Japanese government about what role the banks should play in their economy what would you recommend?

2. How would you interpret the fact that the Japanese economy has been able to "limp" along for several decades without significant growth as a result of the crisis?

*East Asian Financial Crisis of 1997-98*

**Know**

1. How did market liberalization affect the East Asian economy?

a. Why did the U.S. Treasury pressure East Asian countries to "open up" their economies?

2. What part did the "fallacy of composition" play in the financial crisis?

3. What prevailing conventional wisdom of the International Monetary Fund did the East Asian crisis challenge?

**See**

1. What do you think of Robin Handel's analysis of the East Asian Financial Crisis? Explain its pros and cons.
2. Do you think the IMF's rescue plan of East Asia was fair for East Asia?

### **Evolve**

1. If you were an investor where would you put your investment money for the best investment opportunities in the world in the late 1980s and early 1990s?
  - a. What considerations would guide your decision?
2. If you were an IMF advisor formulating policy to resolve the East Asian financial crisis what would you have proposed?

### *The Argentine Financial Crisis (1999-2001)*

### **Know**

1. Why did Argentina peg its peso to the dollar?
  - a. What were the drawbacks of this policy?
2. What role did the IMF play in the Argentine crisis?

### **See**

1. Do you think it was a good idea for Argentina's leaders to defy its creditors?

### **Evolve**

1. How has the economy of Argentina progressed since the crisis of 1999? You may want to conduct additional research on this question.

## **Chapter 2.7 Concluding Insights: Financial Crises**

### **See**

1. In light of what you know about black and white swans, do you think the financial crisis of 2007-2008 was a black or white swan?

### **Evolve**

1. Do you think that financial education is needed for students and adults?
  - a. What type of financial education is needed?
  - b. If you were a teacher, how would you design the course? What types of topics and themes would you add to the course?

## **Chapter 2. Additional Resources:**

- The 2008 financial crisis: How it all began: <https://www.wsj.com/articles/the-2008-financial-crisis-how-it-all-began-1502997466>
- Lest we forget: Why we had a financial crisis:  
<https://www.forbes.com/sites/stevedenning/2011/11/22/5086/#5d1d264af92f>
- Three weeks that changed the world:  
<https://www.theguardian.com/business/2008/dec/28/markets-credit-crunch-banking-2008>
- 4 good things that came out of the financial crisis:  
<http://fortune.com/2015/09/15/financial-crisis-anniversary/>

## Chapter 3: 10 Fatal Flaws in the Financial Sector Part I

### Chapter 3.1 Conversation Starters

#### See

1. Do you think Paul Krugman was exaggerating when he stated the severity of the financial crisis in his quote at the beginning of chapter 3.

#### Evolve

1. Imagine that you were a stockbroker leading up to the financial crisis in 2008. What would you have done when you recognized the financial crisis was coming? How would you have acted as an individual working in the financial service industry with this knowledge? Would you behave in an altruistic way or would you cover-up the facts and deceive the people?

### Chapter 3.2 Uncovering the Flaws in the Financial Sector

#### See

1. Before learning more about the financial sector, what do you think caused the financial crisis?
2. Were you surprised that the financial crisis of 2008 happened in the U.S.?
3. Would you add or remove any of the fatal flaws from the list?

### Chapter 3.3 Fatal Flaw #1: Too Big to Fail Banks (TBTF)

#### Know

1. Why were investment banks and commercial banks separated in the 1930s?
2. How did banks provide a check on U.S. corporate activity?
  - a. Do you think this was a good role for banks to play?
3. What changes occurred in the banking industry in the 1980s?
  - a. Why were these changes enacted?

#### See

1. Do you feel safer or more secure having banks regulated?
2. Do you think that “liberalizing” the international financial sector has had a good effect on the economy?
3. Why do you think the financial sector contributes so much money to political candidates?

4. Do you agree or disagree with Senator Dick Durbin from Illinois who said the “banks own the place (Congress)?”
  - a. What evidence do you have to support your position?

### **Evolve**

1. Tell a story about your relationship with your bank?
2. Tell a story about the procedures you or someone you know had to go through when buying a home?
  - a. Do you think this was a good experience?
  - b. Do a little research to find out what the policies are today?
3. After reading all the information about shadow banks, what do you think would be a good solution to regulate their services?
  - a. You may feel that the shadow banking industry does not need regulating, if so why?

## **Chapter 3.4 Fatal Flaw #2: Unchecked Deregulation**

### **Know**

1. What rationale do supporters of managed capitalism give for regulation?
2. What was the significance of the Riegle-Neal Act in 1994?
3. What was the importance of the merger in 1998 of Citibank with other financial institutions?
4. Who pushed the Commodity Future’s Modernization Act through Congress?
  - a. Why did they do so?
5. What happened to the debt to-net capital ratio leading up to the crisis of 2008?

### **See**

1. What do you think was the significance of the Gramm, Leach, Biley Act or the Financial Services Modernization Act in 1999?
2. Do you think regulation has a place in the banking industry? Explain.
3. What groups do you think benefitted the most from financial deregulation? Explain.

### **Evolve**



1. If you were Brooksley Borne in the 2000s, what would you have done during the passage of the Commodity Future's Modernization Act of 2000?
2. If you were a government regulator during the push for deregulation of the financial sector during the 1990s to 2000s, how would you have handled the situation?

### **Chapter 3.5 Fatal Flaw #3: A "Markets Know Best" Federal Reserve**

#### **Know**

1. What three things give value to money?
2. What are the functions of the Federal Reserve?
3. What is the difference between fiscal and monetary policy?
4. What was the significance of the Home Ownership and Equity Protection Act passed by Congress in 1994?
  - a. It is still in force today?

#### **See**

1. Do you think the policies of Chairman of the Federal Reserve Alan Greenspan caused problems in the U.S. economy?
2. What is your reaction to the following quote: The job of the central bank was "to take away the punch bowl just as the party gets going?"
  - a. Do you think Alan Greenspan should have taken away the punch bowl earlier?

#### **Evolve**

1. If you were a financial advisor to the George W. Bush administration, what advice would you have given the president in handling the policies of Alan Greenspan?

### **Chapter 3.6 Fatal Flaw #4: A Real Estate Bubble and Out of Control Lending**

#### **Know**

1. What was the role of Fannie Mae and Freddie Mac in the home mortgage industry?
  - a. How would you analyze the early years of the home mortgage industry?
2. Why did the "originate and hold" method of mortgage lending change to "originate and distribute?"
3. What was the significance of the Community Reinvestment Act in 1977?
4. How did "subprime" mortgages come about?
5. What effect did low interest rates have on the housing bubble?

**See**

1. Do you think home buyers were in any way responsible for contributing to the financial crisis of 2008? Explain.
2. What do you think was the fundamental flaw in the originate and distribute process?
3. Do you think the Community Reinvestment Act in 1977 was a good idea?
4. Do you think homeowners used their homes as their own ATM machine?
5. Who do you blame for the out of control lending that took place?
  - a. Do homeowners who took advantage of the shoddy loans practices have any responsibility for their fate?
6. What do you think was the fatal flaw in the real-estate lending process in the mid-2000s?

**Evolve**

1. How do you feel about home ownership? Is it important to you? Why?
2. Have you ever been taken in, as the author was, with buying the latest consumer products?
  - a. If so, how did the experience make you feel?
3. Would you have taken out a home equity loan if your needed extra money during the time leading up to the financial crisis?
  - a. What would you have used the extra money for?
4. If you were in a position to develop a program such as the Community Reinvestment Act in 1977, what kind of program would you have created?

**Chapter 3.7 Fatal Flaw #5: A Mountain of Debt****Know**

1. What is the basic message of economists Carmen Reinhart and Kenneth Rogoff?
  - a. Why are they wary about debt?
2. What are the different types of debt mentioned in this chapter section?
  - a. Who are the lenders of this debt?
3. What did Hyman Minsky say about debt?
  - a. What three types of borrowers of debt does Minsky identify?
  - b. When does the Minsky moment arrive?
4. Why couldn't investment banks compete with the money and leverage of the commercial banks?
  - a. What were the results of this phenomenon?
5. What were the three coping mechanisms that developed to allow American to keep spending?

**See**

1. What does Naomi Prins mean when she states, “It wasn’t the subprime market collapse that wrecked the banks and the greater economy; it was all of the borrowing on top of the subprime loans that did the deed?”
2. Do you see any problems with these three coping mechanisms that allowed Americans to keep spending even with declining incomes?
3. Why do you think so much debt is encouraged in the U.S. and other countries?

**Evolve**

1. If you were a Congressperson in the 2000s trying to prevent excessive debt from creating instability in the financial system, what kind of bill would you write?
2. Do you have debt?
  - a. Why do you have debt? For what? For tuition, house, or car?
  - b. Was necessary the debt at that point?
  - c. How do you manage your debt?
  - d. Has debt enhanced your well-being?

**Chapter 3.8 Concluding Insights: Fatal Flaws in the Financial Sector Part I****See**

1. Do you agree or disagree with the author’s comments about overproduction and demand in the concluding insights? Explain.

**Chapter 3.9 Wrap-Up Conversation Questions****Know**

1. Have you heard of cryptocurrency such as bitcoin? What is it?

**See**

1. Do you think cryptocurrency is influential to the current economy and financial system?
  - a. Do you think online business will accept cryptocurrency as payment?
  - b. Would you want to use cryptocurrency in the future or not? Why? Explain.
  - c. How do you think cryptocurrency affects traditional banking?
  - d. How much does the use of cryptocurrency impact the financial services industry?

### **Chapter 3. Additional Resources**

The Financial Crisis: A Decade of Debt:

<https://www.ft.com/video/80cb3f01-0a49-4a2d-a16d-b393d49e03f9>

Why Banks Fear Bitcoin:

<http://fortune.com/2014/11/20/why-banks-fear-bitcoin/>

The Impact of Bitcoin on Central Banks:

<https://internationalbanker.com/banking/impact-bitcoin-central-banks/>

## Chapter 4: Ten Fatal Flaws in the Financial Sector: Part II

### Chapter 4.1 Conversation Starters

See

1. Do you agree with Paul Volcker's comments at the beginning of Chapter 4 on page 95?
  - a. Give some examples if you agree or disagree.

### Chapter 4.2 Fatal Flaw #6: Dicey Financial Products

Know

1. What was the purpose of the Bretton Woods system in 1944?
2. Why did Wall Street revive the securitization industry?
3. What benefits did bonds provide for the financial sector?
4. Briefly describe each of the five financial products mentioned in your book?
5. How would you describe a derivative to someone who didn't know much about them?
  - a. What examples would you use?
6. Why were futures contracts first developed in commodities markets?
7. What role did mathematicians Fischer Black and Myron Scholes play in the derivatives market?
8. What is the notional value? Why it is so high?
9. How did the CDO market get so complicated?

See

1. Do you think that the Bretton Woods system put in place in 1944 was a good idea? Why?
2. Do you think that the advent of securitization helped the finances of the average person? Explain.
3. In your opinion, do you think that when bankers went into the "moving" business it benefitted the average person? Explain.
4. How do you see the ethical and moral dimensions of predatory lending?

5. If you were a hedge fund investor, would you invest your own money in the funds you created for others?
6. Do you think derivatives are a double-edged sword? Explain.
7. Why do you think the author called the financial products covered in Chapter 4 a house of cards?
  - a. Do you agree with her assessment? Explain.

### **Evolve**

1. Are you surprised to learn that derivatives are pervasively used in our global economy?
  - a. How does this make you feel?
2. Knowing that the financial industry was compared to a house of cards, if you were a financial consultant how would you have counseled your clients in navigating around this problem?
3. If you were a U.S. lawmaker, what kind of support, if any, would you give to other countries around the world who suffered from risky financial products sold to them by the U.S.?
4. If you had the power and prestige of Warren Buffet's what would you say about derivatives or CDOs?

## **Chapter 4.3 Fatal Flaw #7: Financial Speculative Mania**

### **Know**

1. What is the relationship between the deregulation of financial markets and the burst of financial speculation?
2. What do you see as some of the benefits that the financial sector contributes to the real economy?

### **See**

1. What do you think Nomi Prins means when she says that finance is one of the few disciplines based on the creation of absolutely nothing?
2. Do you think the profitability of the financial sector is dependent on speculative coups?

### **Evolve**

1. If you were a Wall Street financier with a good heart, what kind of financial products would you create that would positively contribute to the real economy and benefit everyday people?
2. Has the financial sector contributed positively to your daily life in any way(s)?

## Chapter 4.4 Fatal Flaw #8: Moral Hazard and Lack of Transparency

### Know

1. Why would the Federal Reserve and the U.S. Treasury Department bail out some companies that undertook too much risk?
2. Explain how the insurance company American International Group (AIG) exemplifies the concept of moral hazard.

### See

1. Do you think it is the right thing to do for the government to bail out companies that undertake too much risk?
2. In your opinion, why don't the big banks like transparency?

## Chapter 4.5 Fatal Flaw # 9: Deceptive Rating Agencies

### Know

1. What role did credit rating agencies play in the financial crisis?
2. How did the credit rating agencies' compensation method used by their clients change since the 1970s?

### See

1. Do you think the issuer-pays model of compensation contributed to the deceptive ratings issued by the credit rating agencies?

### Evolve

1. If you were a reformer in the Credit Rating Agency in the 2000s, how would you have fixed the procedure for obtaining truthful credit ratings?

## Chapter 4.6 Fatal Flaw # 10: Bloated Compensation Plans

### Know

1. What does Nomi Prins mean when she states on page 116 that "the financial sector pays people for creating an illusion of value?"

### See

1. Do you think that the value of money is ephemeral?
2. Do you agree or disagree with the statement that Wall Street financial products do not provide any immediate benefit to most of the country?
3. Do you think that hedge fund managers have an advantage over average Americans in the way they are compensated? Explain.

### **Evolve**

1. If you were on the board of directors of a large, profitable bank in the 2000s, what type of compensation package would you have recommended for your bank president? For a trader?

## **Chapter 4.7 Concluding Insights: The 10 Fatal Flaws in the Financial Sector**

### **Evolve**

1. If you agree with the statement that wealth flows to Wall Street at the expense of Main Street, how would you solve the problem?
  - a. If you don't think this statement is true, why not?

## **Chapter 4.8 Wrap-Up Conversation Questions**

### **See**

1. What do you think is the most important fatal flaws described in this chapter? Why?
2. Do you want to add other fatal flaws beyond the ten described in this chapter?
3. Do you think these ten fatal flaws in the financial sector are still problems or have some already been resolved?

### **Evolve**

1. After reading this chapter, have your views changed about the financial sector and the role they play in the U.S. and global economy? How?

## **Chapter 4. Additional Resources**

Flaws in the Financial System: Socializing Risk, Privatizing Profit:

<https://unchronicle.un.org/article/flaws-financial-system-socializing-risk-privatizing-profit>

Seven Fatal Flaws in the Financial System:

<http://www.jubilee-centre.org/seven-fatal-flaws-financial-system/>



The Problem of the Financial Sector is Institutional Amorality:

<https://www.theguardian.com/sustainable-business/problem-financial-sector-amorality>

We Know There are Problems in the Financial System But Not How Bad They are:

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10728291/We-know-there-are-problems-in-the-financial-system-but-not-how-bad-they-are.html>

Top 10 Issues Facing Financial Institutions in 2017: <https://www.natlawreview.com/article/top-10-issues-facing-financial-institutions-2017>

## Chapter 5. The Financial Crisis of 2007-2008

### Chapter 5. Conversation Starters

#### Know

1. Have you experienced or heard of the 2008 financial crisis?

#### See

1. Do you agree with Hank Paulson's comments at the beginning of chapter 5 on page 119?

### Chapter 5.1 The Fall of Lehman Brothers

#### Know

1. How did Lehman Brothers get its start?
  - a. What strategies did it employ to continue to thrive?
2. Why was Richard S. Fuld a darling of Wall Street at one time?
3. What role did leverage play in the rise of Lehman Brothers?
4. Why did Lehman Brothers collapse and what were the consequences?
5. What does it mean that trillions of dollars vanished into thin air?
6. What was the significance of the September 13, 2008 meeting?

#### Evolve

1. What would you have done differently if you were advising Treasury Secretary Hank Paulson in trying to avert the disaster of the Lehman Brothers' collapse?

### Chapter 5.2 Finance is the Circulatory System

#### See

1. What is your reaction to the story of Angelo Mozilo and Countrywide Financial Corporation?

#### Evolve

1. The author compares the financial sector to the human circulatory system. Draw a mind map making the connections.

### Chapter 5.3 Setting the Stage of the Financial Crisis

**Know**

1. Why were Wall Street financiers called “financial wizards?”

**See**

1. Do you think that the big brokerage firms constructed their empires on a shaky foundation? Explain.
2. Do you think Sandy Weill’s attitude about the financial sector contributed to the financial crisis?

**Evolve**

1. Did your views about the mortgage industry change after reading the story about Ameriquest?
  - a. Were you surprised to learn about what was going on in one segment of the mortgage industry at the time?
2. If you were an advisor to President Bush and obtained information about Ameriquest’s shoddy mortgage lending practices, what would have recommended to the President?

**Chapter 5.4 Events of the 2008 Financial Crisis****Know**

1. What were the early signs that a financial crisis was imminent?
2. What problems did the investment bank Bear Sterns encounter?
3. What did it mean that many financial institutions carried an array of toxic assets on its balance sheets?
4. What problems did Fannie Mae and Freddie Mac experience?
5. What problems did money markets experience in 2008?
6. What role did the government play in the commercial paper market during the 2008 crisis?
7. Why did the Federal Reserve grant bank holding company status to two investment banks during the crisis?
  - a. Do you think this was a fair action?

**See**

1. Do you agree or disagree with the government’s response to the problems at Fannie Mae and Freddie Mac?
2. Do you agree or disagree with the federal government’s decision not to take a “take a haircut” on

the AIG losses?

- a. What guided the government's decision?
2. What actions and behaviors by Hank Greenburg of AIG do you think exemplified the financial crisis of 2008?
  3. Why do you think the Federal Reserve was a lender of last resort?
    - a. Do you think this was fair?

### **Evolve**

1. If you were a banker and at the September 13, 2008 meeting what would you have recommended to Treasury Secretary Hank Paulson as a plan of action to alleviate the financial crisis?
2. Did you or someone you know have money in a money market account in 2008? If so, what were your reactions to the impending crisis?
  - a. Did you agree or disagree with the government's actions?
3. Weighing all the evidence at the time would you have predicted that the U.S. would enter a "Lost Decade" as Japan had experienced in the 1980s?
  - a. In your estimation what would that "Lost Decade" have looked like?
4. If you were a Congressperson at the time the TARP program was up for a vote, would you have voted for it?
  - a. If yes, why? If not, what would be your objections?

## **Chapter 5.5 The Obama Administration and the Crisis: An Analysis**

### **Know**

1. How did Democratic President Obama handle management of the crisis differently than his predecessor President George W. Bush?
2. What was President Obama's plan for rescuing the economy?
  - a. Do you agree with this plan?

### **See**

1. Do you agree or disagree with economist Joseph Stiglitz's position about the bank bailout?

### **Evolve**

1. How do you think all the developments described in this section of the chapter affected Main Street? Wall Street? How would you have handled the financial crisis differently?

## **Chapter 5.6 The Federal Reserve's Role in the Financial Crisis**

### **Know**

1. What was the Federal Reserve's role in the financial crisis?
2. What did the Federal Reserve do differently in the financial crisis than in the past?

## **Chapter 5.7 Concluding Insights: The 2008 Financial Crisis**

### **Know**

1. What were the results of bailing out the banks?

### **See**

1. Do you agree or disagree with Joseph Stiglitz's statement: "They all employed the same logic that had gotten the financial sector into trouble to get it out of it?"
2. Do you think the economy would have collapsed if the federal government did not bail out the banks?

### **Evolve**

1. Has your attitude about Wall Street financiers changed after reading the short section about their reaction as the crisis unwound?
  - a. Do you think this was an attitude among the financiers that was pervasive throughout the industry or isolated among a few?

## **Chapter 5.8 Wrap-up Conversation Questions:**

### **1. Know**

1. What was the main cause of this crisis?
2. How did the crisis impact peoples' lives at that time?

### **See**

1. What were the benefits and disadvantages of this crisis?

### **Evolve**

1. Do you think the 2008 financial crisis still affects peoples' lives today?
  - a. Do you think it is a national crisis? or global crisis? Why? Explain.
  - b. What would you do when you face this type of financial crisis?

## Chapter 6. The Aftermath of the 2008 Financial Crisis

### Chapter 6.0 Conversation Starters

See

1. What is your reaction to Elisabeth Sahtouris' quote at the beginning of Chapter 6 on page 143?

### Chapter 6.1 The New Normal

Know

1. What are the five responses given in the book to our current economic quandary? Briefly describe each one.

See

1. Before reading any further, what response to you most closely identify with at this point? Why?
2. Do you think we are at a critical juncture in our human history? Explain.

### Chapter 6.2 Revolt

Know

1. What is a revolution?

See

1. Do you think we are experiencing a revolution today? It doesn't have to be as catastrophic as the Russian Revolution. Explain.
2. What problems, if any, do you think can result from a revolution? Benefits?

### Chapter 6.3 Restore

Know

1. What do you think is "normal" today?
  - a. Has "normal" changed from even a few years ago?

See

1. In hindsight, do you think the bailouts were a good idea?
2. What examples of the restore movement do you see in the political and economic arena today?

## Chapter 6.4 React

### Know

1. What does react mean?
2. Why would reactionaries use austerity measures to “improve” the economy?
3. Why do reactionaries blame economic woes on “big government?”
  - a. Do they have any basis for their ideas?

### See

1. How have banks reacted to efforts for reform by the government? Do you think they should have reacted differently?
2. How has the Federal Reserve reacted to the financial crisis? Do you think they should have reacted differently?
3. How has the housing market and consumption reacted to the financial crisis? Do you think the people involved should have reacted differently?
4. Do you think reactionary policies have solved or even helped labor problems and social inequality?
5. Do you think the Tea Party has had an impact on the restore/react agenda? Explain.
6. Do you think the react category accurately describes the very conservative agenda? Explain.

### Evolve

1. Imagine you were (are) a Tea Party supporter. What do you imagine would have driven you to identify and support the Tea Party cause?

## Chapter 6.5 Reform

### Know

1. What does reform mean?
2. What is an economic stimulus?
3. What is a multiplier effect?
4. What are transfer payments?

### See

1. How would you answer the question: "If there is a role for government in the global economy, what should that role be?"
2. Should economic growth play a role as a driving force in the global economy?
  - a. If not growth, what would be the alternative?
3. Why do you think the Dodd – Frank Wall Street Reform and Consumer Protection Act was attacked and continues to be attacked today?
4. Do you think the banks should have been broken up after the financial crisis?
5. Do you think the Consumer Financial Protection Bureau was a good idea? Explain.
6. What are the two types of responders described by the author in the book?
  - a. What are the differences in the responses?
  - b. Which type of response do you most closely identify with? Why?

### **Evolve**

1. If you were a reformer in Congress in the aftermath of the financial crisis, what policies would you have put forth?
2. What do you think is the big question(s) for reformers in the 21<sup>st</sup> century?
3. Do you agree with reformers who are putting forth a reform agenda based on economic growth as the path to economic prosperity? Explain.

## **Chapter 6.6 Rebuild and Concluding Insights**

### **Know**

1. What does rebuild mean in the context of this book?
2. What is a mixed economy?
3. What is worker ownership?

### **See**

1. What challenges do you think rebuild brings to those advocating change?
2. In your opinion are there more or less of the five actions listed in your book in which the rebuilding process can take place?
3. Do you think it is important to emphasize small and local? Why?
4. Do you think worker ownership is important in rebuilding an economy? Explain.



5. Do you think public ownership is important in rebuilding an economy?
  - a. How would you convince those who disagree with you that your ideas are beneficial to your national economy?
6. How would you heal our planet?
7. Do you think we need a new civilizational paradigm such as the one author Naomi Klein talks about?

### **Evolve**

1. Do you participate in the small and local economy? If yes, explain how. If no, why not?
2. If you think it is important, how would you create alternatives to the consumer growth model?
3. If you were a political leader today what would you do help solve the problems we face?
4. If you think it is important to rebuild the economy, what non-government programs would you suggest?
5. What values (same or different) would you recommend that we Americans need to inculcate in order to rebuild our economy?
  - a. How would you convince others that these are important values?
6. After reading this section of the last chapter, have your thought changed about the American standard of living slipping for many Americans? Explain.
  - a. Do you think this declining standard of living is a shock to many Americans?
  - b. Do you think we need to make different choices for a viable future?
  - c. If so, what choices need to be made, if not what choices shall we continue with?

### **Engage**

1. Conduct a survey to find out what people often do when they face an unknown future?
  - a. Share the results with others.
2. Conduct a survey to find out what banks your survey respondents do business with. Why do they do so?
  - a. Are there local alternatives to the big banks in your community?
  - b. If so, find out more about these banks and what they are doing.
  - c. Can they use some help in marketing their community bank?
3. Conduct research to find different forms of democratized forms of business ownership/worker ownership in your local community and outside your community.
  - a. Are they doing important actions to rebuild the economy? Explain. Share your findings with others.

4. Conduct research to find out if there are non-governmental, alternative forms of health care developing in your community.
  - a. Share your research findings in a simplified form with others.

## Chapter 6.7 Wrap-up Conversation Questions

### See

1. Do you think 2008 financial crisis ended or is it still influencing our lives?
  - a. How has the 2008 financial crisis changed your life?
2. Do you think we are safe from another global financial crisis?
  - a. Are there any ways for us to prevent another type of financial crisis?

### Evolve

1. If another global financial crisis would occur how do you think it would play out?
  - a. Would it be similar to 2008 crisis or different?
  - b. Do you feel another global financial crisis is coming soon? Can you recognize some signals of another one developing?

## Chapter 6. Additional Resources

2008 Financial Crisis Impact Still Hurting States:

<https://www.usatoday.com/story/money/business/2013/09/14/impact-on-states-of-2008-financial-crisis/2812691/>

2008 Financial Crisis: Causes, Costs and Could It Reoccur?

<https://www.thebalance.com/2008-financial-crisis-3305679>

On the 10<sup>th</sup> Anniversary of the Global Financial Meltdown, here's what's changed:

<https://www.usatoday.com/story/news/world/2017/08/09/global-financial-crisis-whats-changed-10-years/547806001/>

Another Global Financial Crisis is Imminent, and Here are Four Reasons Why:

<http://www.scmp.com/comment/insight-opinion/article/2120679/another-global-financial-crisis-imminent-and-here-are-four>

Global Financial System Facing the 'Perfect Storm':

<http://www.theweek.co.uk/91129/global-financial-system-facing-perfect-storm>

***Thank you for participating in the Five Worldviews Conversation Topic. Please let us know your experiences. [info@global-awareness.org](mailto:info@global-awareness.org)***

***Kind regards,***

***The Gather team: Denise, Nancy, Moonsun, and Grace.***