

Activities/Critical Thinking Questions/Research Suggestions

The Global Economy: Connecting the Roots of a Holistic System

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Chapter 7. The Financial Sector: Ten Fatal Flaws

Section 7.1 Charles Ponzi and Quote

1. Quote
 - a. Discuss what John Maynard Keynes meant in his quote at the beginning of the chapter.
2. Bernie Madoff
 - a. Research the Bernie Madoff investment fraud that broke in 2008.
 - b. What similarities does it have with the Charles Ponzi scheme?
 - c. What happened to Bernie Madoff and his family?
 - d. In your opinion, what drove him to commit such a disgraceful act?

Section 7.2 The Rise of the Financial Sector

1. Overproduction
 - a. Conduct research to find examples of overproduction in the global economy.
 - b. What happens to wages when there is overproduction?
 - c. What happens to prices?
 - d. How do companies combat overproduction?
 - e. Plot graphs to show your findings.
2. Main Street and Wall Street
 - a. Make a chart showing the revenues generated by Main Street businesses. Wall Street businesses.
 - b. Which one adds more value to the global economy?
 - c. Interview business people in your community that you consider to be "Main Street" businesses.
 1. What are the biggest problems that they face?
 2. What are the biggest rewards of being a Main Street business owner?
 3. Have several different questions ready for the interview.
 - d. Interview business people in your community that you consider to be "Wall Street" businesses.
 1. What are the biggest problems that they face?
 2. What are the biggest rewards of being a Wall Street business?
 3. Have several questions ready for the interview.

Section 7.3 Recklessness: The Master Narrative

1. Recklessness
 - a. If you could write a new master narrative or story of the U.S. in the future, how would it read?
 - b. Write a poem about recklessness and the financial crisis.
 - c. How would you explain the question: "Why did the financial sector take such crazy risks in the first place?"
 - d. Create a slide show or video chronicling the narrative of recklessness in American society.

Section 7.4 10 Fatal Flaws in the Financial Sector

1. The Flaws

- a. Interview several people who were directly affected by the financial crisis of 2008.
- b. Who did they blame for the crisis?
- c. How were they impacted by the crisis?
- d. How did you feel after conducting the interview?
- e. Did your attitude towards the financial sector change after the interviews? Explain.

Section 7.5 Fatal Flaw #1: Too Big to Fail Banks (TBTF)

1. Your Bank

- a. Describe the place where you bank.
- b. Arrange an interview with someone at the bank to ask some of the following questions:
 1. Where do they make most of their money?
 2. Are they a chain bank or locally based?
 3. How do you go about getting an automobile loan? A home loan?
 4. Do you think they are part of Main Street or Wall Street?
 5. Add your own questions and prepare them ahead of time.

Section 7.6 Fatal Flaw #2: Unchecked Deregulation

1. Deregulation

- a. Have a group discussion about the question: "Do you think regulation has a place in the banking industry?"
- b. Conduct some research on Senator Phil Gramm. Why was he so motivated to deregulate the banking and commodities industry? What would you have done differently if you were Phil Gramm?
- c. Conduct some research about the role Brooksley Borne played in the regulation of banks. (there is a good Frontline documentary on the subject) What would you have done in her situation?
- d. If you were President Bill Clinton at the time, what would you have done about the deregulation frenzy?

Section 7.7 Fatal Flaw #3: A "Markets Know Best" Federal Reserve

1. Federal Reserve

- a. Create a play about Alan Greenspan's role as Chair of the Federal Reserve during his tenure. Use the punch bowl as one of the metaphors of the play.
- b. Write an opinion piece for a major newspaper about the job that Alan Greenspan performed as Chair of the Federal Reserve.
- c. What do you think Marriner S. Eccles, Chair of the Federal Reserve during the Depression era, would have done differently if he was the Chair of the Fed during the time period that Alan Greenspan was chair?
- d. Former Fed chairman William McChesney Martin once cleverly said that the job of the central banks was "to take away the punch bowl just as the party gets going." Think of another metaphor that could be used to describe the situation and write a short paragraph about it. Do others think you have created a good metaphor?

Section 7.8 Fatal Flaw #4: A Real Estate Bubble and Out of Control Lending

1. Real Estate Bubble

- a. Write a story about how you, your friends, or people you know get/got caught up like the HGTV couple and the author in wanting more housing features than you can afford. Why does this happen? What can you do about it?
- b. Using a systems approach, draw a mind map or an in-depth diagram connecting all the links in the process that created the housing bubble and crash.
- c. Who do you think was mostly responsible for the housing bubble and crash?

- d. Do you know someone who is “underwater” and owes more on their house than it is worth?
 1. What are they doing about it?
 2. How do they feel about their predicament?
 3. How do you feel about their situation?

Section 7.9 Fatal Flaw #5: A Mountain of Debt

1. Debt
 - a. Why does excessive debt create instability in a financial system? Explain.
 - b. Would excessive debt create the same instability in a household? Create a chart to show how debt could cause instability in a household.

Section 7.10 Fatal Flaw #6: Dickey Financial Products

1. Financial Products
 - a. Do you think the financial products created by the financial industry were a “house of cards”? Explain.
 - b. Can you think of other metaphors to describe the shaky financial products?
 - c. Construct a diagram showing all the connections between the different financial products and the crisis of 2008.
 - d. Have a group discussion addressing the question: Do you think the financial crisis can happen again? Explain.
 - e. Conduct research to find out the repercussions of these dicey financial products on different countries around the world. Pin point the countries on a map to show the extent of the repercussions.
 - f. Did the crisis of 2008 damage the reputation of Wall Street? Explain.

Section 7.11 Fatal Flaw #7: Financial Speculative Mania

1. Speculation
 - a. How would you analyze this statement: Finance is one of the few disciplines based on the creation of absolutely nothing.
 - b. Which one contributes more to the real economy and the majority of people?

Section 7.12 Fatal Flaw #8: Moral Hazard and Lack of Transparency

1. Moral Hazard
 - a. Find examples of moral hazard in your everyday life.
 - b. What are the consequences of moral hazard?

Section 7.13 Fatal Flaw # 9: Deceptive Rating Agencies

1. Credit Rating Agencies
 - a. How did the issuer-pays model of compensation contribute to the deceptive ratings issued by the credit rating agencies?
 - b. Do you have suggestions on how this can be fixed?
 - c. Invent examples of how the concept of the issuer-pays model of compensation could be used in other circumstances.

Section 7.14 Fatal Flaw # 10: Bloated Compensation Plans

1. Compensation Plans

- a. Discuss the following statement: Wall Street financial products do not provide any immediate benefit to most of the country. Do you agree with this statement?
- b. Research compensation for CEOs and devise charts to show the increase or decrease in their compensation plans. Be sure to include all the different forms of compensation such as benefits and bonuses.

Section 7.15 Concluding Insights: The 10 Fatal Flaws in the Financial Sector

- a. Research to find out what can be done to stop the pattern of wealth flowing to Wall Street at the expense of Main Street.
- b. After reading this chapter, do you think your attitude towards Wall Street has changed? If so, in what ways. If not, why not?