

Section A

This section has ONE question only.

1. Write a summary (précis) of the following passage, in **not more than 150 of your own words**. You must write a summary, not a discussion of the passage. **No credit will be given for answers made up of sentences extracted from the original passage.**

It was the late 1970s. The baby boom generation was growing up. Boomers were going to want their own homes, just like their parents. But given their vast numbers many economists worried that there wouldn't be enough capital to fund all their mortgages. This worry was exacerbated by the fact that the main provider of mortgages, the savings and loan, or thrift, industry was in terrible straits. Customers were moving their money out of S&Ls and into new vehicles like money market funds, which paid much higher interest. "The thrifts were becoming destabilized", Ranieri would later recall. "The funding mechanism was broken". Besides, the mortgage market was highly inefficient. In certain areas of the country, at certain times, there might be a shortage of funds. In other places and other times, there might be a surplus. There was no mechanism tapping into a broader pool of funds.

The story as it would later be told is that Ranieri and Fink succeeded by inventing the process of securitization – a process that would become so commonplace on Wall Street that in time it would be used to bundle not just mortgages but auto loans, credit card loans, commercial loans, you name it. Ranieri names the process "securitization" because, as he described it at the time, it was a "technology that in essence enables us to convert a mortgage into a bond" – that is, a security. Fink developed a key technique called tranching, which allowed the securitizer to carve up a mortgage bond into pieces (tranches), according to the different risks it entailed, so that it could be sold to investors who have an appetite for those particular risks. The cash flow from the mortgages were meted out accordingly.

The truth is, though, that the creation of mortgage-backed securities was never something Wall Street did entirely on its own. As clever and driven as Fink and Ranieri were, they would never have succeeded if the government hadn't paved the way, changing laws, for instance that stood in the way of this new market. More important, they couldn't have done it without the involvement of Fannie Mae and its sibling, Freddie Mac, the Federal Home Loan Mortgage Corporation. The complicated interplay which evolved between Wall Street and these two strange companies – a story of alliances and feuds, of dependency and resentments – gave rise to a mortgage-backed securities market that was far more dysfunctional than anyone realized at the time. And out of that dysfunction grew the beginnings of the crisis of 2008.

Section B: You must complete EITHER Section B1 OR B2

B1

Complete Section B1 ONLY if you are completing Section D

Please answer ONE of the questions below

1. Choice is a driver of inequality. The more money and education you have, the better the choices you can make. Discuss
2. It is true that nobody is above the law, but power can make somebody invisible. Critically examine
3. Is the internet a friend or foe of democracy?

B2

Complete Section B2 ONLY if you are completing Section C

Please answer ONE of the questions below

1. The internet revolution is the fastest economic change humans have experienced, and it is accelerating. Discuss.
2. The phone hacking controversy only occurred because there is a public appetite for sensationalist headlines and those headlines justify any means used to get them, even if the means happen to be illegal and callous. Do you agree? Are there any circumstances under which phone hacking may be morally justified?
3. ‘Anyone with eyes open knows that the gangsterism of Wall Street -- financial institutions generally -- has caused severe damage to the people of the United States (and the world). And should also know that it has been doing so increasingly for over 30 years, as their power in the economy has radically increased, and with it their political power. That has set in motion a vicious cycle that has concentrated immense wealth, and with it political power, in a tiny sector of the population, a fraction of 1%, while the rest increasingly become what is sometimes called "*a precariat*" -- seeking to survive in a precarious existence. They also carry out these ugly activities with almost complete impunity -- not only too big to fail, but also "too big to jail."
Noam Chomsky, September 2011.

Critically discuss in light of the ‘Occupy Wall Street’ protest movement.