Instructions: Do the reading, then go through the questions, think about them, referring back to the reading when necessary, and write short answers (ranging between 1-2 sentences and couple paragraphs) for each. (If you feel you addressed one question in an answer to another, feel free just to refer to that.) Turn in your answers on the day the reading is due. You may discuss these questions with others but all answers should be written in your words (though you may use occasional quotes).

To be turned in:

1. What are your overall thoughts?

2. Is the footnote on average salaries in "I don't think they wanted the music to stop" really evidence that ratings agencies just get people who couldn't get hired by investment banks?

3. Go through the AlphaPool calculation with just 3 mortgages. What is the difference in risk between the perfectly correlated and perfectly uncorrelated cases.

4. Analyze the statement at the beginning of "Act I": *The rate of return [on home investment] had been less in a century than the stock market typically produces in a single year.*

5. How might you decide if the 2009 stimulus package was a good idea?

6. Consider the statement: *Economists thought there was just a 1 in 500 change of a recession as severe as actually occurred.* Is this evidence that they were wrong or that they were right?

Not be turned in: (you don't need to write up, but think about if you have time, and we may discuss in class)

7. Why are the grades assigned to debts by ratings agencies important?

8. Why might or might not politicians think it was a good idea to give people incentives to buy homes in 2008?

9. Was it wrong for ratings agencies to using housing data going back to the 1980's to estimate default rates? Would it help to go back further?