double or even triple once the adjustable rates kicked in. The majority of these adjustable rates would not kick in until 2007, however, so there was a honeymoon period in which millions of people were buying homes they could not afford using these subprime loans. The banks would bundle these subprime loans into mortgage bonds and sell them. In the film, we see how a few people begin to realize that these mortgage bonds are not nearly as secure as they seem so they approach the bank to buy credit default swaps which are essentially a way of betting against the mortgage bond so that one can profit immensely when people begin to default on their loans. At first, banks thought this was ridiculous since mortgage bonds were considered some of the safest investments. Soon, however, selling these swaps became bigger business than selling the mortgage bonds which were quickly becoming worthless. The banks sold their worthless mortgage bonds to unsuspecting buyers and began to buy up as many credit default swaps as they could. By 2007, millions of people began to default on their loans. Yet the credit ratings of the mortgage bonds were being artificially propped up by false ratings that the banks bought from the rating agencies. By 2008, most had sold their swaps to the banks and pocketed the cash. One by one, the biggest banks were going bankrupt. In response, the government decided to offer bailouts. *Too Big to Fail* focuses more on the aftermath and the government's response to the crisis, namely the bailouts. The bailouts were sold to the American people as a necessary measure to preserve the American economy. The film also highlights the key reason the bailouts were not very effective. During the long negotiations with the CEOs of the top banks, we see the treasure secretary struggling to impose regulations and restrictions as conditions for receiving the bailouts. By the end, he admits that he imposed far less restrictions than he would have liked because he was afraid if he established too many regulations, they would not take the bailout money. As a result, there were some regulations about how the money was spent and how the banks should do business but it was not nearly enough to cause lasting change.

Both *Too Big to Fail* and *The Big Short* end with a hint of a potential crisis in the future. These hints about the danger of a repeat financial crisis in the future point to the serious need for meaningful economic policy reform in the United States. Without proper regulation, capitalism is unable to function properly. This is because, as a “profit and loss system”, it needs to experience both the profits and losses in order to correct itself (Friedman in Gambling with Other People’s Money 4). With things like bailouts, the losses are absorbed by the taxpayers, leaving the banks protected from the consequences of their risky behavior. As a result of this ineffective policy, the system becomes distorted in the sense that the amount of “reckless and imprudent risk taking” behavior increases to unsustainable levels (Gambling with Other People’s Money 4).

This is why effective policy is so important. Some possible reforms could be to put caps on executive pay to prevent their greed from weakening the financial foundations of their bank and the economy. Better loan regulations are also needed. For example, placing strict interest rate caps could help eliminate outlandish interest rates that make otherwise affordable payments completely unmanageable. Predatory loan tactics, such as targeting immigrant families as the mortgage brokers in *The Big Short* describe, should also be more effectively criminalized and punished. It could also be beneficial to establish transparent government programs to help increase home ownership rather than subsidizing private banks (Gambling with Other People’s Money 20). Furthermore, getting loans should be made more difficult. People with no verifiable income or who clearly do not have the means to pay should not get such large loans and those who do qualify should be given clear and easily understandable details about the terms of their loan agreement. With reforms like these, we could better prevent the possibility of a second disastrous financial crisis.

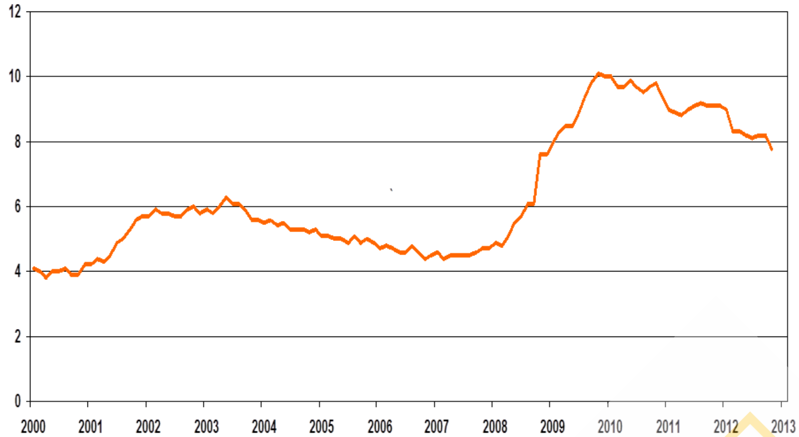
Works Cited

Gambling with Other People's Money. N.d.

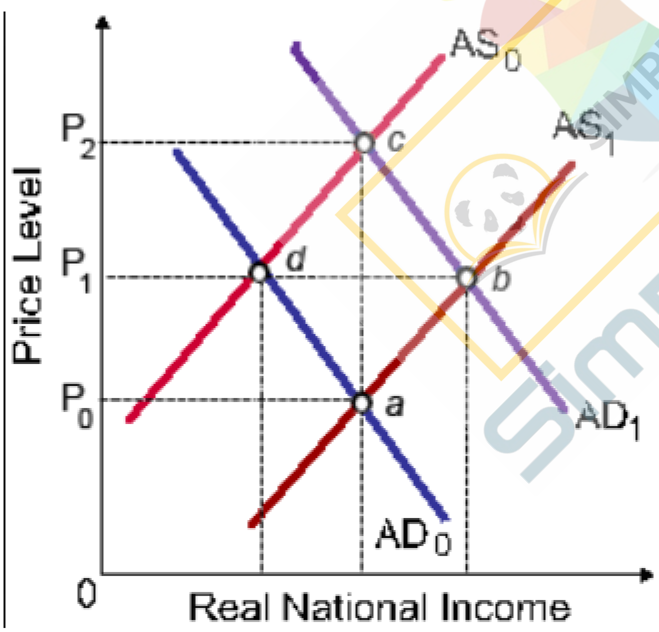
The Big Short. Dir. Adam McKay. 2015. DVD.

Too Big to Fail. Dir. Curtis Hanson. 2011. DVD.

Appendix- Graphs



United States Unemployment Rate (in %) from 2000 to 2013



AS/AD Graph of Recessionary Price Levels and Income