7.6.1. Crucially, vanilla IR swaps are not Credit Default Swaps (CDS's) as such, though they are used to hedge aspects of CDS positions.

It is also of some importance that the current popular press bandies the notional figures around as "scare tactics". Yes, 741 Trillion is a big number and it may be 20 times the US GDP, but its "notional" not "real". That type of "journalism" is irresponsible, though it does suit those with a political agenda and who wish to scare you into some massive expansion of government to over-control derivatives.

The global derivatives "cash value" of about USD 17.2 Trillion is still a big number, but much smaller than 741 Trillion. The global GDP for 2008 was around USD 60 Trillion[10]. In this context, even if all derivatives were "wiped out", it would still only represent a small fraction of the planet's GDP. Yes, it would be bad, but it's not "the sky is falling". Moreover, even the worst financial calamities don't see more than a 30-50% price decline in the markets; so even in the worst scenarios only "a fraction of the fraction" would be harmed.

It is noteworthy that around 2008 the US mortgage market was estimated to be about 14 Trillion in loans and related products (a small percentage being derivatives), of which the US Government (directly or via its agents) had underwritten as much as 7 Trillion. Much of those government induced mortgages/loans were toxic assets since the US Government specifically target mortgages for low income access (i.e. the sub-prime market). It is possible that 20% or more of those US government induced loans may be "write offs". That means USD 1-2 Trillion down the drain due to the US Government's actions, plus much indirectly. That's real money getting on par with the cash value of the entire global derivatives market's cash value … just do to US Government on its own.

The scale of those manipulations considerably overshadows what happens in the derivatives markets.

3 Where is the Greed?

The most important question one can ask about a financial contract or participant is "how do they make their money?". The next most important question is "what, if any, risks are involved in that *modus operandi*". If there are risks, is the level of profit commensurate with that type/level of risk.

Put differently, asking "where is the greed?" (i.e. how/where are they making their money) will explain much about contracts and participants.

Crucially, if you are asked to participate in a contract or venture and you do not see how the money is made, and you do not see where all the risks are ... Run! Similarly, if a participants "profits" from derivatives trading are not cash (e.g. politically/re-election motivated intrusion in the markets), again … Run!

[10] This varies slightly between IMF, BIS, and CIA reports.