1 Preface

A basic and "pedestrian" introduction to financial contracts and derivate instruments is provided; partly in response to much main-stream media nonsense, and partly to help layman understand how the media is manipulating details of financial markets and derivatives to promote their own ideological/political agendas.

This monograph is in two parts. The introductory Chapters explain how and why the financial markets operate, focusing on derivatives. The second half provides a (factual) explanation of how/why the financial melt-down of 2008 actually came about.

Politicians and left leaning journalist/pundits have taken the position that the crash was the work of some "evil Wall Street bankers". While Wall Street had contributed to the disaster, their contribution is more in terms of speed, rather the cause.

The melt-down is primarily due to the US Government's actions. The two most damaging actions were initiated by the Clinton administration. One was the repeal of the Glass-Steagall Act. The other was initiation of the hyper inflation of the US mortgage market and creation the world's larges toxic asset bomb in the sub-prime markets primarily via their agents Fannie Mae and Freddie Mac. Congress had many warnings of abuses and excessive risk being introduced into the US economy by Fannie and Freddie. Instead of closing them down, they covered up the abuses, and allowed Fannie and Freddie to accelerate flooding the sub-prime sector with toxic assets, and the mortgage bubble, with the government agencies holding as much as 7 TRILLION in mortgage products, more than ½ of the GDP and the entire mortgage market.

Wall Street and talk about bail-outs has mangled the truth, the reality is very different. Wall Street, at the time of this writing, had less than USD 60 Billion in TARP. On the other hand, Fannie and Freddie have received direct cash of about 130 Billion, but most astonishingly, have been bailed out to an amount approaching 1.5 TRILLION. Yes, TRILLION with a T. The Obama administration has misused a special provision in the Federal Reserve Banks' charter to be able make a 1.5 TRILLION bail-out, without the need for any Congressional vote, discussion, or indeed hardly a single word in the main-stream media informing tax payers of this massive loss/self-bail-out by/for the US Government. This approach allows them to avoid having to explain to the public that it was them (the feds) that caused this melt-down in the first place.

Many details here are derived from another "pedestrian", albeit comprehensive, treatment of the disaster, ART, **Greed is an Equal Opportunity Employer – How/Why Governments Cause Melt-Downs,** 2009, Available at the *ARTSHOP* .(HTTP://WWW.ARBITRAGE-TRADING.COM/ARTSHOP/PRODUCTS.ASP), 183 pages, and software.; [1] in the References. Detailed technical matters are found in the "A Trader's Guide to …" series available here (http://www.arbitrage-trading.com/TG2Books.htm).

We rely on a standard approach to education: teach it once, teach twice, and then teach it once again.