Warren Buffett: Derivatives Set the Stage for the Next Financial Crisis?

Warren Buffett will be answering a question about derivatives. Watch and fill in the gaps with missing information.

1. In September and October of 2008, the Federal Reserve poured 85 billion into .... to prevent a financial crisis.
2. Hank Paulson guaranteed money market funds at a time when .... million Americans were panicking.
3. The amount of money that left the non-government money market funds in just 3 days was .... billion.
4. The actions taken by Bernanke and Paulson during the panic demonstrated that strong leadership is needed to ....
5. According to the speaker, the ability to print money was crucial during the panic, as it allowed leaders to say they would do ....
6. Section 133 of the Federal Reserve Act was likely not intended to be used for ....
7. The speaker expresses concern that Congress is hesitant to give too much authority to the ....
8. The speaker notes that it is challenging to write regulations that prevent people from acting ...., especially when such behaviour has been profitable.
9. The analogy of Cinderella at the ball suggests that people often believe they will be able to leave the situation before it ....
10. The speaker reflects on the uncertainty of when the next panic will occur, stating that when it happens, the focus will be on whether people will ....

Read the text and decide where the removed sentences (A-F) should be inserted.

Derivatives are financial market products whose value depends on (is derived from) the price of an underlying asset. The main derivative instruments are futures, options and swaps. (1) …

Futures contracts are agreements to buy or sell an asset at a fixed price in the next few months. They can be used to hedge - to insure against future price changes. (2) … In this way, the seller is protected from a fall in price and the buyer from a rise in price. There are futures markets for various commodities including foodstuffs (wheat, maize, soybeans, pork, beef, sugar, etc.), beverages (tea, coffee, cocoa, orange juice), oil, precious metals (gold, silver, platinum) and non-precious metals (copper, nickel, etc.).

Financial futures are contracts to buy and sell financial assets like currencies, bonds, stocks and stock indexes at a future date. (3) … Futures are standardized contracts traded on specialized derivatives exchanges. Non-standardized contracts, negotiated and traded directly between two parties, are called forward contracts or simply forwards. Contracts negotiated without using an exchange are described as over-the-counter (OTC) trades.

Options differ from futures in that they give the right, but not the obligation, to buy or sell an asset in the future. Buying a call option gives you the right to buy an asset for a specific price (the strike price or exercise price), either within a specified period (an American-style option) or on a specific future date (a European-style option). (4) … Call options are similar to warrants, except that they usually only last for 3, 6 or 9 months, whereas warrants can have a maturity of several years.

Buying a put option, on the contrary, gives you the right to sell an asset at a specific price within a specified period or on a specific future date. So if you think the price of a stock will fall in the next few weeks or months you can buy the right to sell it at a price you think will be above its market price.

The person or organization that underwrites (or sells) options contracts accepts the obligation to deliver or buy the assets according to the terms of the contract. (5) … Obviously, the writer has opposite expectations about the future value of the assets than the buyer. If the writer is right, the buyer will never exercise the option to buy or sell, so the writer gains the premium. Yet a writer who is wrong can lose an enormous amount, depending on how far the price of the asset changes.

Borrowers and lenders can also undertake interest rate or exchange rate or currency swaps. (6) … Swaps are usually over-the-counter operations.

Simple and common derivatives are often described as 'plain vanilla' derivatives, and more complicated and specialized ones as exotic derivatives.

A. For this the writer (seller) receives a fee from the buyer, called a premium.

B. They can be used for both hedging and speculation.

C. Just like commodity futures, they can be used to speculate as well as to hedge, as they give the possibility of making large gains by correctly anticipating changes in stock prices, interest rates, exchange rates, etc.

D. For instance, a company that has borrowed money with floating-rate notes could protect itself from a rise in interest rates by arranging with another company to swap or exchange its floating-rate payments for fixed-rate payments.

E. For example, wheat producers can make contracts to sell wheat to a food processing company at a fixed price on a future date.

F. Thus if you expect the price of a stock to rise you can buy a call option giving the right to buy that stock in the future at the current market price.

Word formation. Form other parts of speech from the words provided.

Noun	Verb	Adjective	Adverb
	derive		------
------	underlie		------
	standardise		------
	prime		
	underwrite		------
	commoditise		------

Complete the sentences using the correct form of the word in parentheses:

1. The financial expert explained that a ……………… (derive) is a contract based on an underlying asset.
2. The company's profits were …………………… (prime) driven by high-value commodities this quarter.
3. The new regulation requires all contracts to be ……………..…………… (standard).
4. The manager decided to ……………..…………… (write) the high-risk bond to secure a higher return.
5. The consultant focused on the ……………..…………… (standard) of over-the-counter trade practices.
6. The product's success is ……………..…………… (derive) from its innovative design and utility.

Fill in the blanks with the correct vocabulary word from the list below:

bubble, collateral, bankruptcy, institutional investors, raise capital, bears, bulls, day traders, issue, shares

During the dot.com ...., many .... were eagerly buying up .... in hopes of quick profits. The market was driven by optimism, with the .... pushing the prices higher. However, when the market turned, the .... took control, causing the bubble to burst. As a result, both personal investors and large .... found themselves facing significant losses. Some had used their .... to secure loans, while others were forced to .... more .... to stay afloat, leading to a rise in .... filings.

Complete the collocations below by filling in the missing word.

1. stock .... (market, prices, equities, capital)
2. institutional .... (investors, funds, taxes, collateral)
3. dot.com .... (bubble, boom, debt, yield)
4. .... part (integral, gross, liability, equity)
5. .... value (increase, decrease, account, stock)
6. borrow .... (money, funds, balance, statement)
7. market .... (movements, increase, risk, equity)
8. share .... (ownership, investments, liabilities, loan)
9. financial .... (impact, health, taxes, receivable)
10. personal .... (investors, gains, debt, accounts)
11. job .... (cuts, growth, capital, portfolio)
12. private .... (pension, sector, liability, growth)

Put the words in brackets into an appropriate form.

1. The stock market has become an attractive place for .... (invest) as many people seek higher returns.
2. The company has .... (invest) significant resources in new technology to boost its market share.
3. The company is planning a major .... (expand) into international markets to increase its revenue.
4. The CEO presented an .... (expand)plan to grow the company's market position by acquiring smaller competitors.
5. The .... (collateral) of the loan was completed after the bank evaluated the assets provided as security.
6. The bank .... (collateral) the loan with the borrower's shares in a large corporation.
7. The company chose to ....(collateral) its assets to raise capital for a new product launch.
8. The company's .... (value) was conducted by an independent firm to determine its market value.
9. Shares in established companies are often seen as more ....(value) investments compared to speculative stocks.
10. The insight from experienced investors is ....(value) when making decisions about stock market investments.
11. The ....(value) of the national currency had a significant impact on the stock market, causing many foreign investors to withdraw their funds.
12. The stock experienced a sharp decline after the ....(value) was corrected by analysts.