Film Review - *Michael Hodson*

The Big Short

2015, Paramount, Director Adam McKay

The Big Short has been nominated for 5 BAFTA and 5 Academy Awards, winning the Oscar for the best adapted screen play. But why has the film been released this year given it's based on the best-seller by Michael Lewis published in 2010? Certainly the subject matter seems to have lost none of its appeal. At the early evening performance I attended shortly after the film was released the cinema was very nearly full; and I was told the later performance was sold out. The mystery is why a film about the causes of the Great Recession of 2008 should be so popular seven and a half years after the event. Has this to do with the depth of the Great Recession, as the aftermath of the 2008 events are now called, its length and the tentative nature of the economic recovery? Or has it to do with an enduring sense of institutionalised wrong?

The Big Short makes the Great Recession upfront and personal. Like the book the film is about the 'weirdos' who bet that the price of US mortgage bonds would collapse. In other words they foresaw the Great Recession years before it happened. The film sets out their motivations, frustrations, sense of injustice and agonising decision making as they began to realise the consequences of the recession they were about to precipitate. Through the stories of these 'weirdos' and the bankers who accepted their bet the film sets out to explain how the financial contagion not only began but how it spread.

We're told that bankers like to make things seem complicated because then we'll understand why only they know what's going on. So the film uses some novel means to explain and make sure we understand what the various financial instruments mean. Margot Robbie (recall Neighbours) plays a dumb blonde in a bubble bath, sipping champagne explaining the meaning of a 'sub-prime mortgage bond.' American chef Anthony Bourdain compares collateralised debt obligations (CDOs) to using three-day old fish to make stew and to sell it as a fresh dish. Selena Gomez and Professor Richard Thaler at the black jack table explain that synthetic CDOs are a form of betting. They also explain how the value of the synthetics exceed the value of the mortgages by a large multiple thus multiplying the eventually huge impact of the mortgage defaults.

The film also shows in an often tragi-comic way the effects of personal and corporate greed and the logic of its impact in the market. A major lesson of *The Big Short* is buyer beware. Don't think anyone trying to sell you a financial service, or those whom you hire to buy one, are working for your good. Be aware of their motivation. The Great Recession is the result of moral hazard writ large.

So the banks dilute the quality of mortgage bonds in order to sell more bonds and earn more commissions. Mortgage brokers sell higher risk mortgages to those without jobs or assets because they can earn higher commissions; and because the banks will buy the mortgages from them thus eliminating their risk. The banks combine the poorer risk bonds, claim the benefits of diversification and sell them on as lower risk assets; again for the commission. (Here the film glosses over the genuine benefits of diversification and the necessary assumptions of statistical independence. If it was the case that mortgage defaults in different parts

Margot Robbie explaining the meaning of a 'sub-prime mortgage bond.'