

CCTV 高清

华尔街

Wall Street





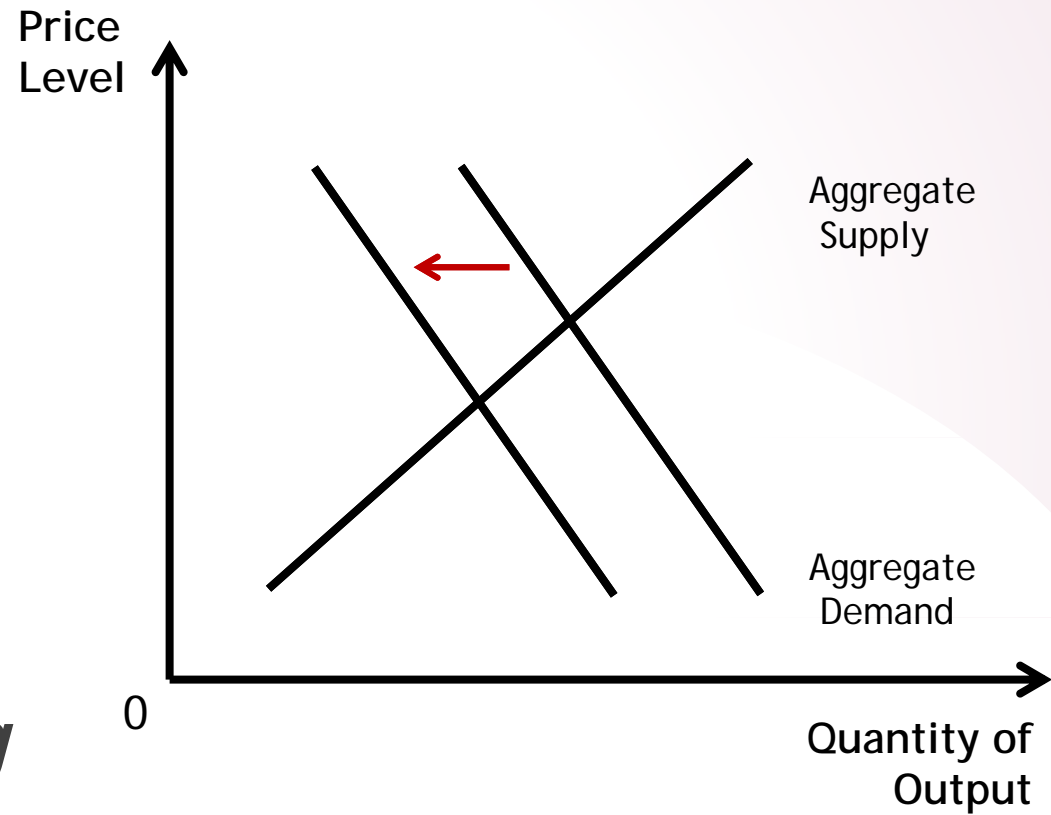


- An American
Macroeconomist
- Fudan University
Professor
- Harvard University
Professor
- Chairman of the
Central Bank



Professor Mankiw

- * *a series of shock caused AD to decline*
- * *moved the economy down along an upward-sloping AS curve.*
- * *unemployment and deflation*

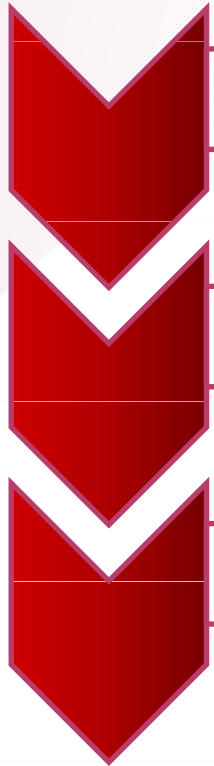


* **Analyze**



* **Classical Economics
Theory**

Recession Period



• wage

• Price level

• unemployment

* **Classical Economics
Theory**

Recession Period

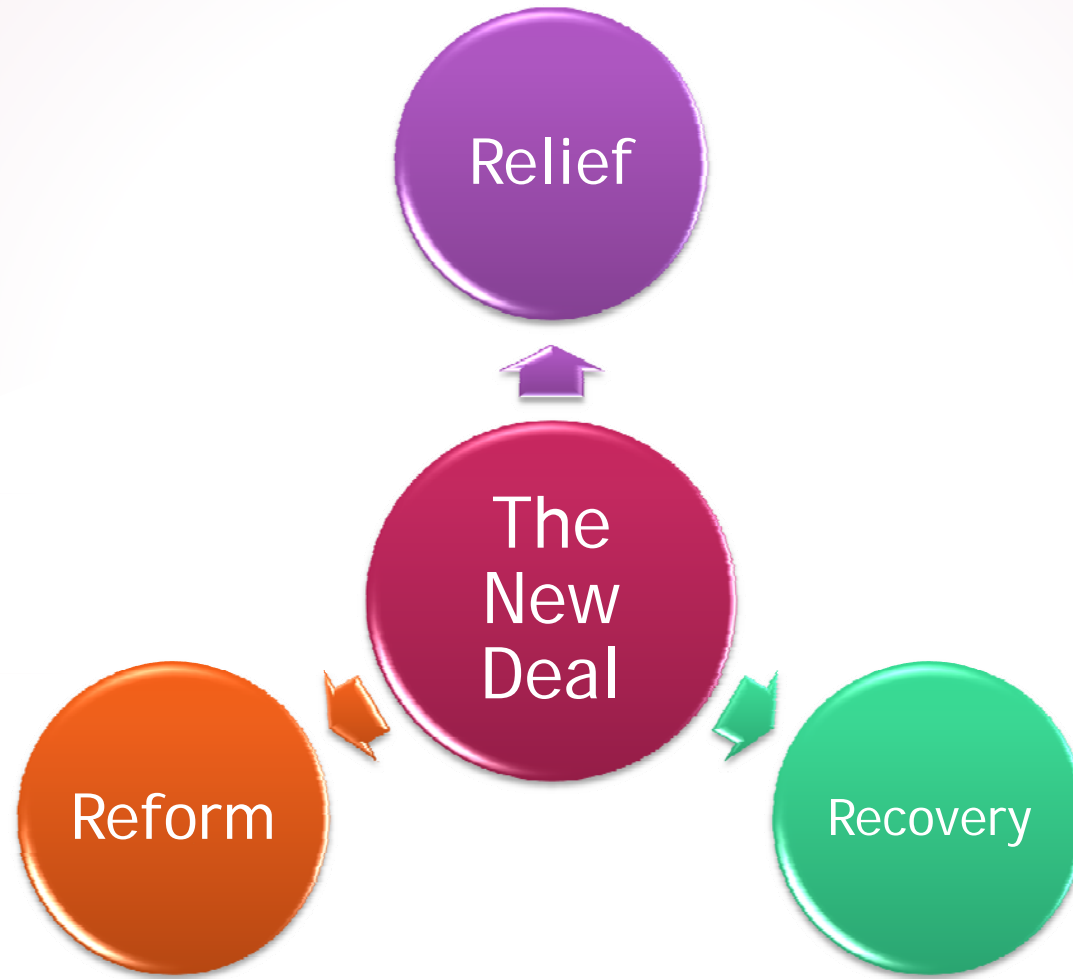
* **Classical Economics
Theory**

Table 2

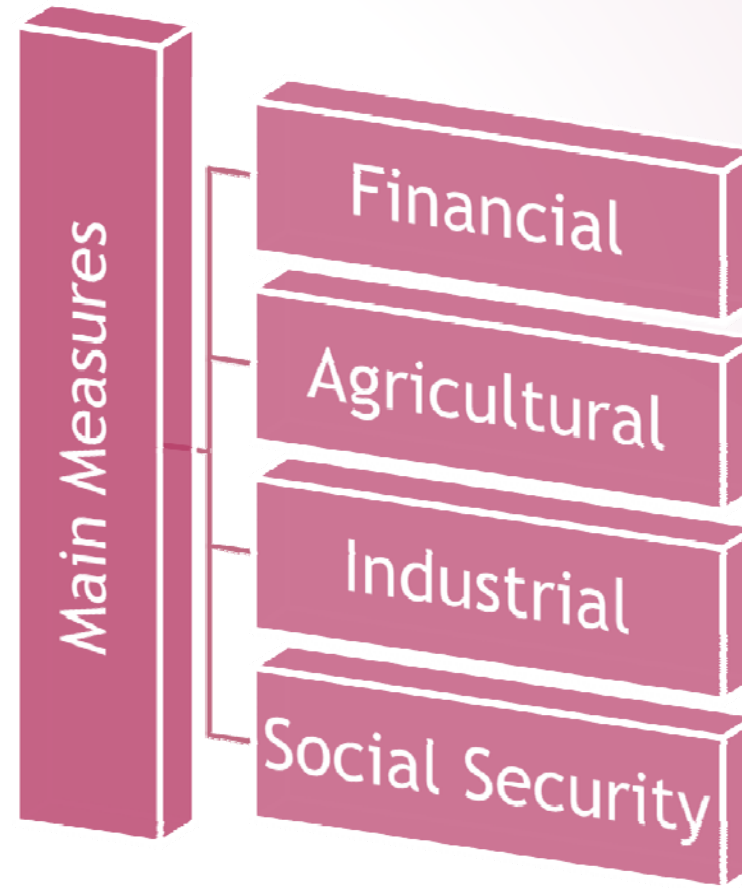
Decomposition of the Change in GNP in the United States in Recessions

Year	Percentage Change in GNP	Fraction of the Change in GNP Accounted for by:				
		Consumption	Inventory Investment	Fixed Investment	Net Exports	Government Purchases
1904	-1.3	-0.76	0.66	0.83	0.26	0.01
1908	-8.6	0.56	0.24	0.35	-0.05	-0.10
1914	-7.9	0.12	0.23	0.63	0.09	-0.08
1917	-2.4	0.66	0.74	0.74	0.26	-1.40
1920	-1.1	-2.92	-1.71	-0.68	1.44	4.88
1921	-2.4	-1.95	2.56	0.51	0.43	-0.56
1930	-9.3	0.46	0.24	0.38	0.02	-0.10
1931	-6.2	0.38	0.03	0.62	0.06	-0.09
1932	-15.8	0.50	0.20	0.26	0.01	0.04
1933	-3.0	0.66	0.04	0.19	0.09	0.03
1938	-5.5	0.22	0.94	0.38	-0.26	-0.28

Sources and Notes: The data on real GNP and its components are from Kendrick (1961, Table A-11a, pp. 293-295). The table shows the decomposition of the change in GNP for all years between 1900 and 1942 in which GNP declined. The rows may not sum to one because of rounding.



* Roosevelt "New Deal"

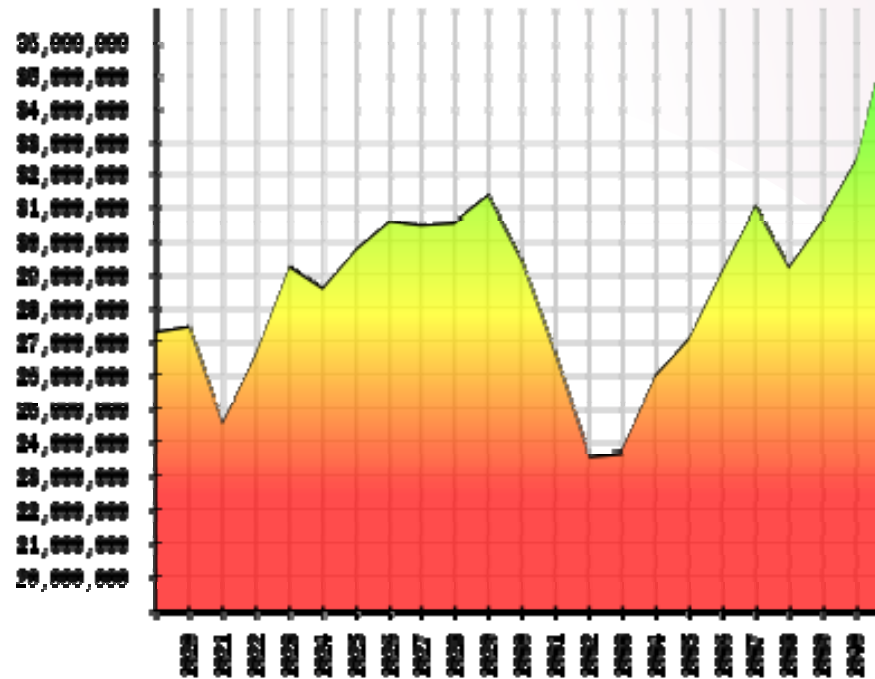
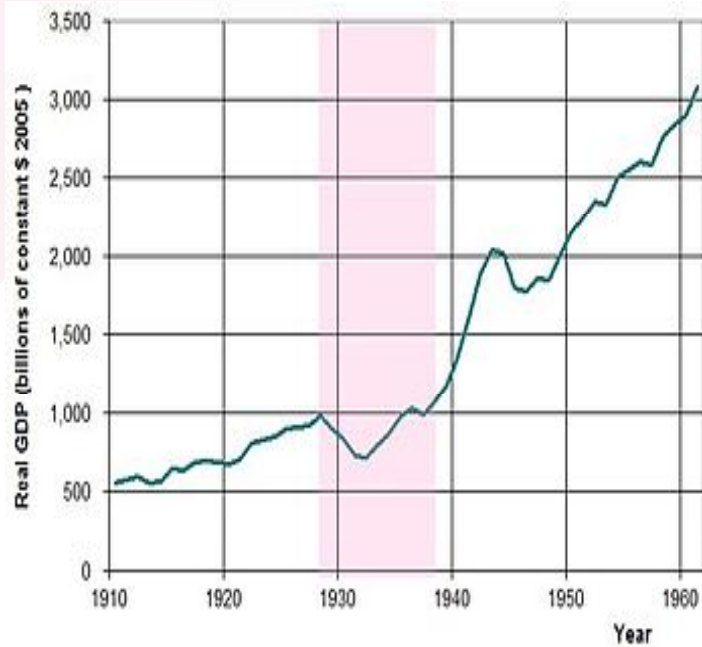


* Roosevelt “New Deal”

- * Financial
 - Emergency Bank Act
 - Suspended the gold standard
- * Agricultural
 - Agricultural Adjustment Act
- * Industrial
 - National Industrial Recovery Act
- * Social Security
 - Social Security Law

GOVERNMENT INTERFERE

* Roosevelt “New Deal”



* Roosevelt “New Deal”

Oil Crisis



Why did the oil crisis happen?

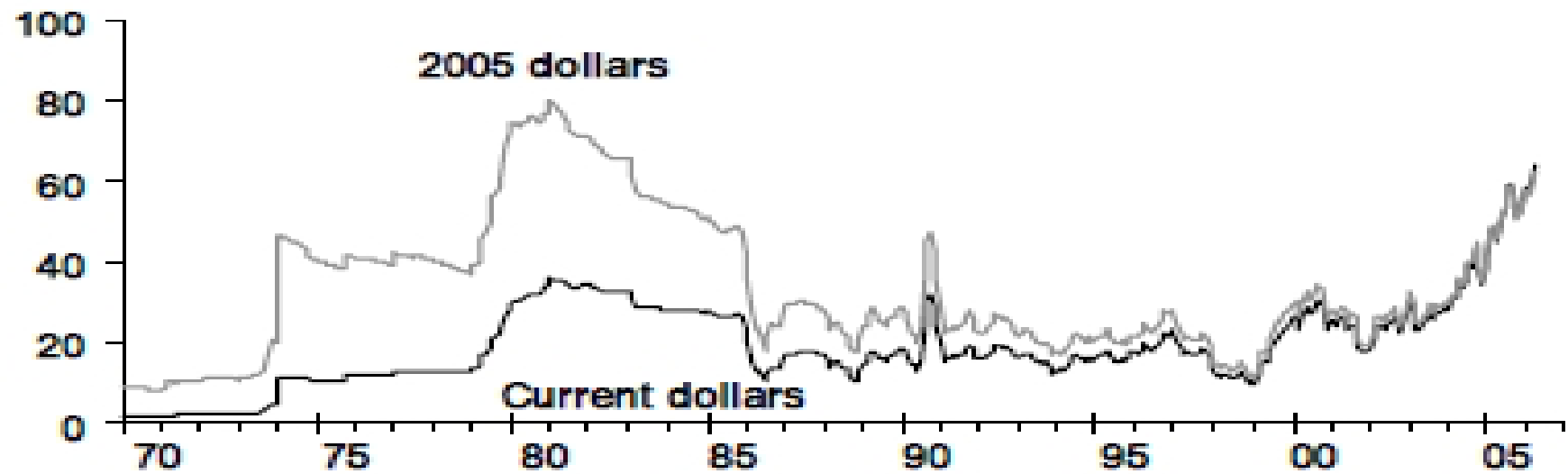
- ◎ started in October 1973
- ◎ oil embargo
- ◎ in response to the U.S. decision to re-supply the Israeli military

What's the impact of the oil crisis?

- ◎ the global economy entered recession
- ◎ oil price spikes depressed demand growth
- ◎ High inflation
- ◎ High unit labor cost

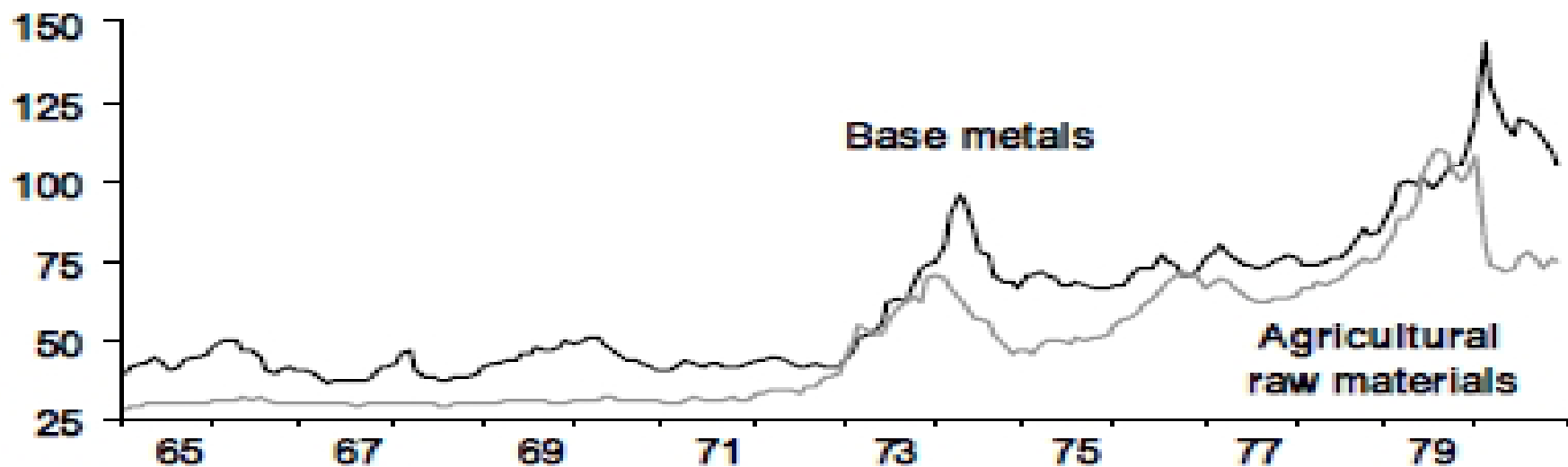
OPEC oil price

\$/bbl; real price in 2005 US dollars



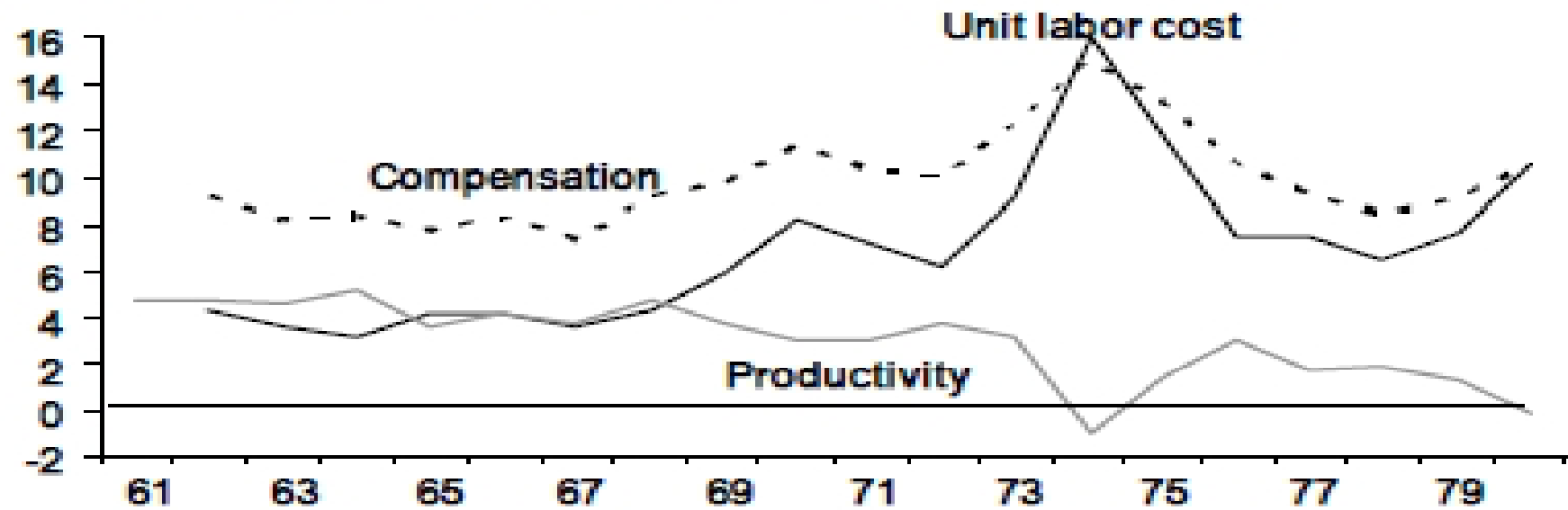
Global commodity prices

1995=100; IMF indexes



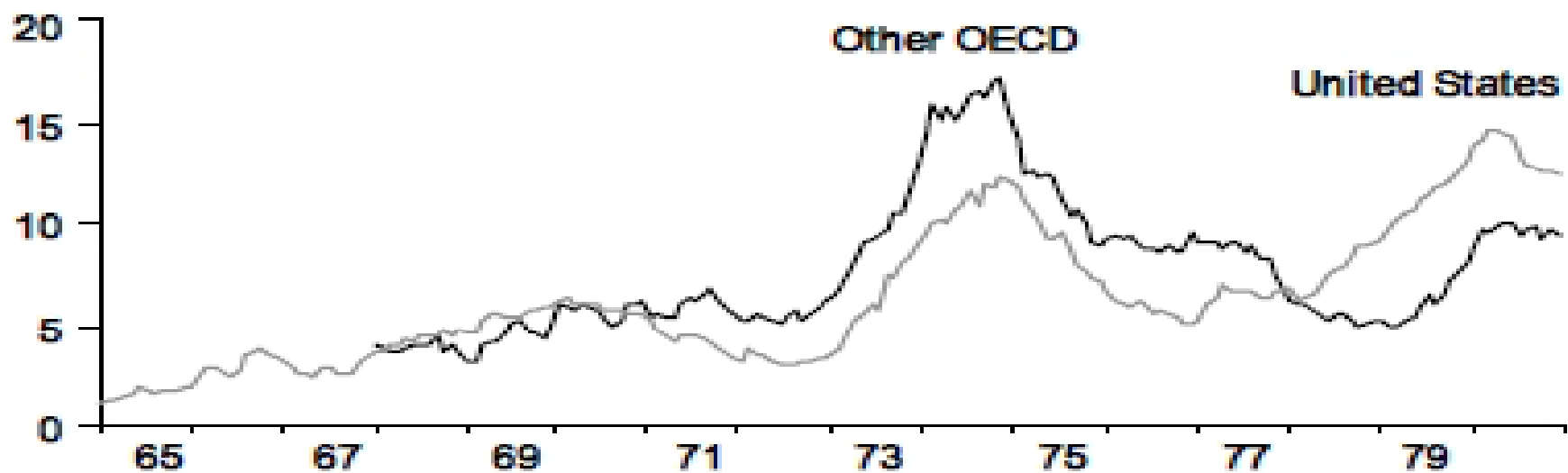
Productivity and costs in the G7

%oya; US, UK, Canada, Germany, France, Italy, Japan



OECD consumer price inflation

%oya



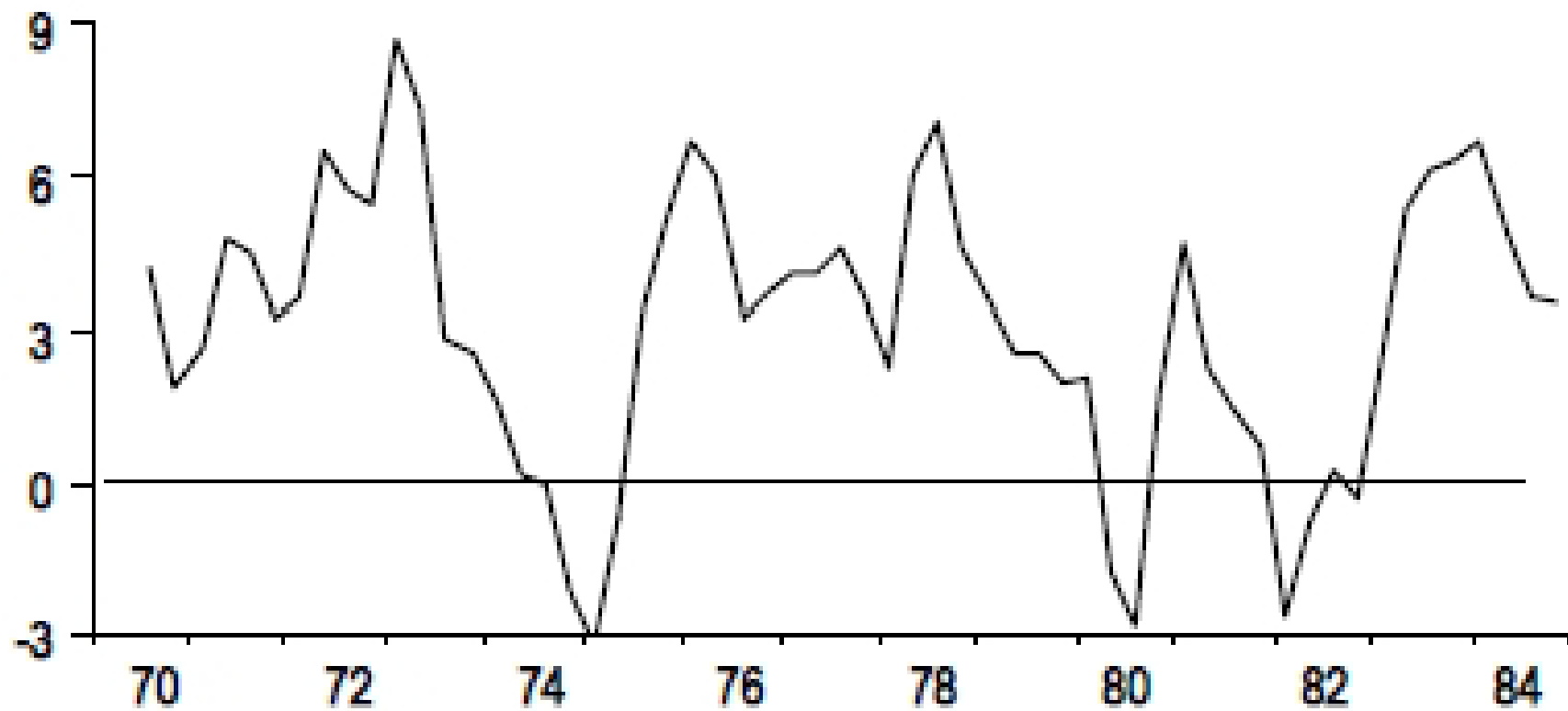
From the *Economic Report of the President*¹

For eight years economic policy and the news about the [US] economy have been dominated by inflation. The story has been a frustrating one Inflation seemed a Hydra-headed monster, growing two new heads each time one was cut off. The problem was not confined to the United States; indeed inflation was worse in most other countries. There is now a great deal of inflation built into our system. For one thing, both workers and employers are now used to high increases in money wages which reflect the expectation of rapid inflation The public is highly sensitive to inflation and reacts in an inflationary way to any news which confirms its expectation of inflation.

1. January 1974, Chapter 1.

Global real GDP

% change annual rate over 2 quarters





DOT-COM BUBBLE



Professor

What's an economic Bubble

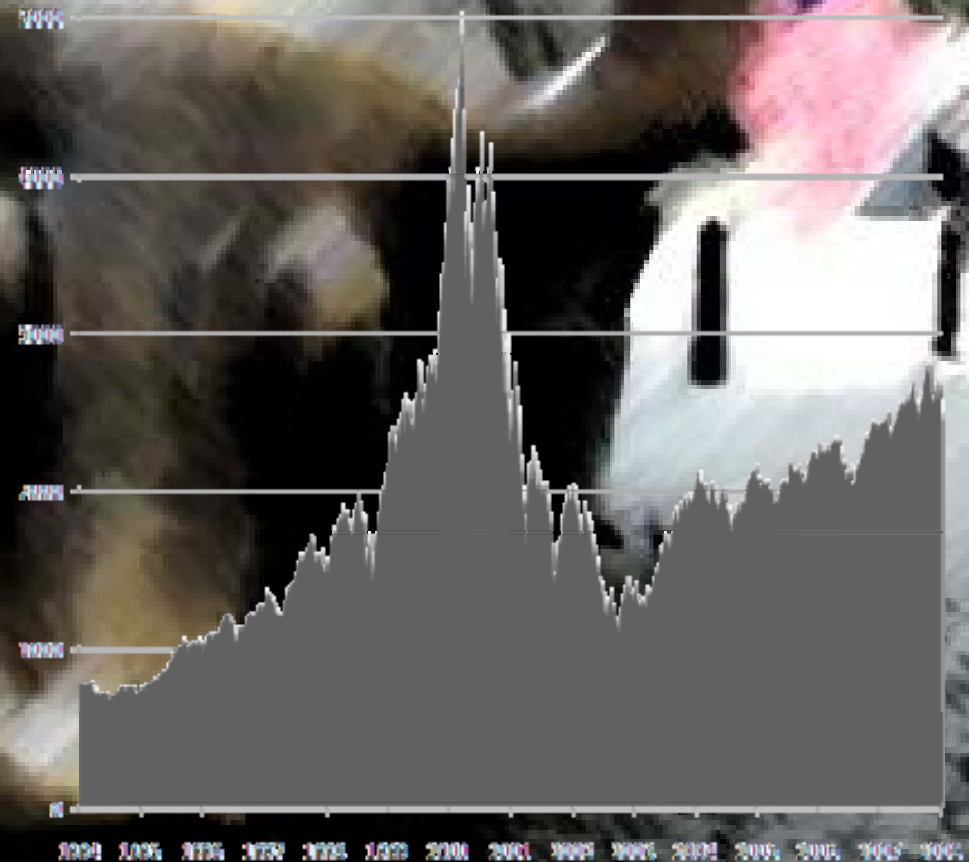


FACTs

In 1995 Netscape and Yahoo made a very successful IPO

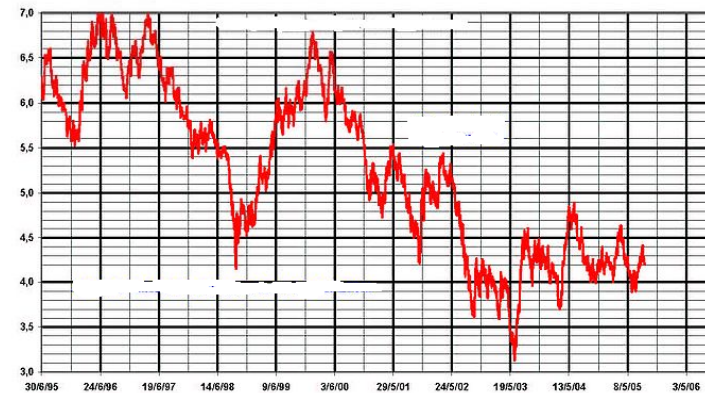
The boom of Information and communications technology

- The low interest rates in 1998-99 helped increase the start-up capital amounts
- In the year 1999, there were 457 IPOs, most of which were internet and technology related
- 10 march 2000, NASDAQ index peaked at 5.048,62



CRASH

- Over 1999 and early 2000, the U.S. Federal Reserve increased interest rates six times
- Several communication companies could not weather the financial burden and were forced to file for bankruptcy
- In 2001 the number of IPOs dwindled to 76
- In October 2002 NASDAQ index falls to 1,108.49



Causes

Too much
too fast
company

Speculation,
venture
capital

Stock
Option

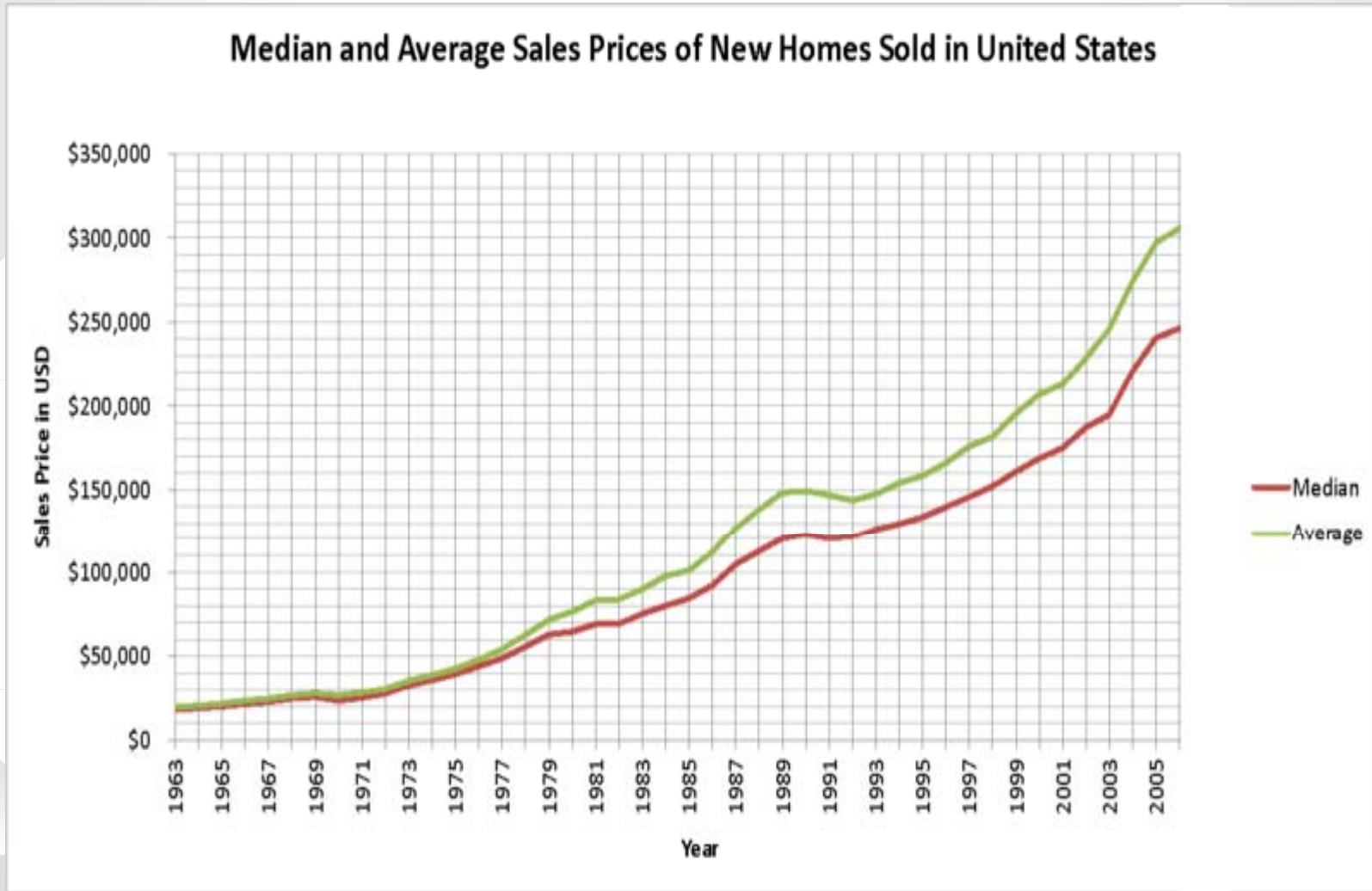
Low-
interest rate

*** Subprime
mortgage crisis
2007—2009**

Background

Background

*Housing market booming



Background

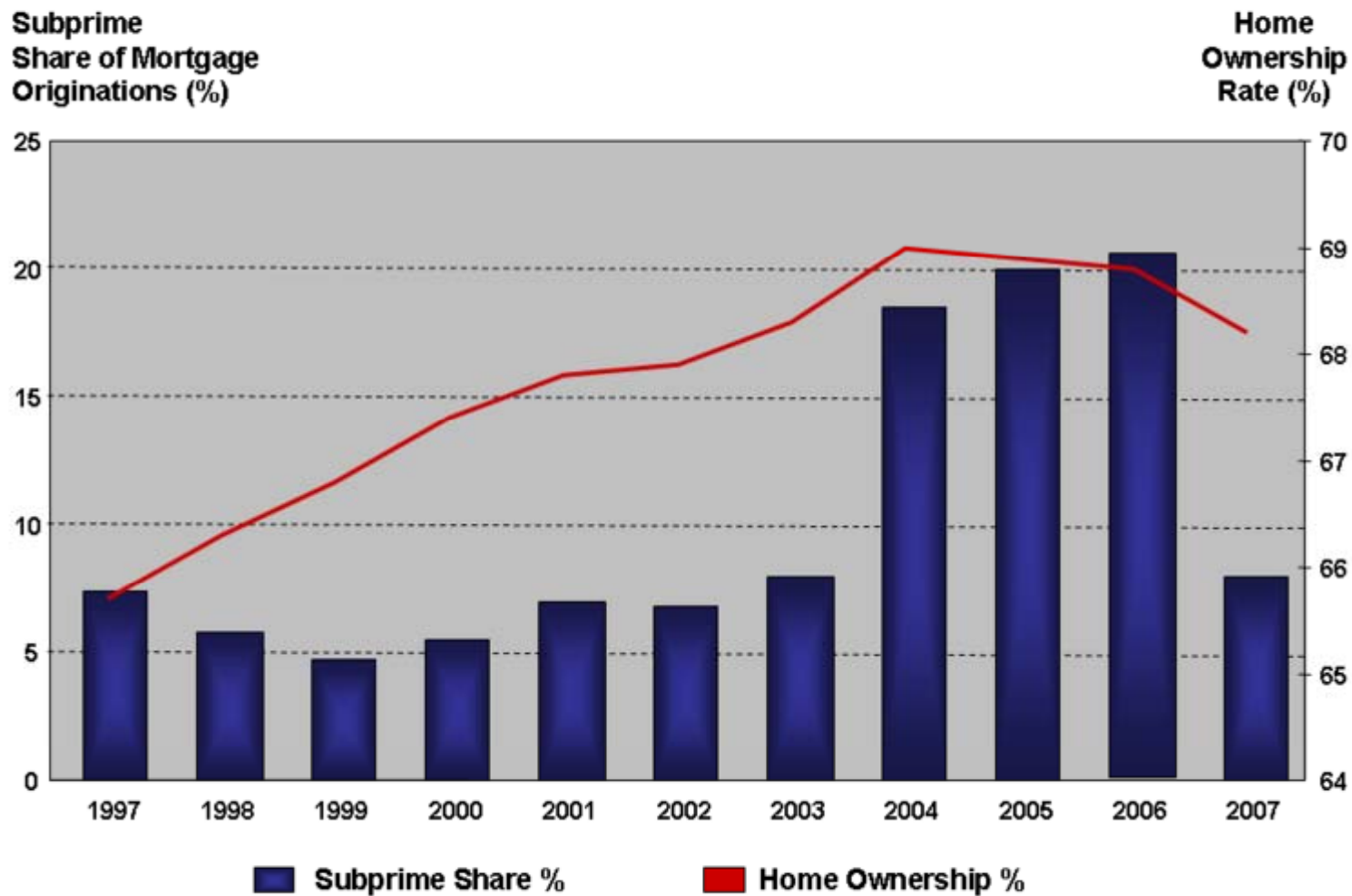
Easy credit conditions

High-risk mortgage loans

Subprime

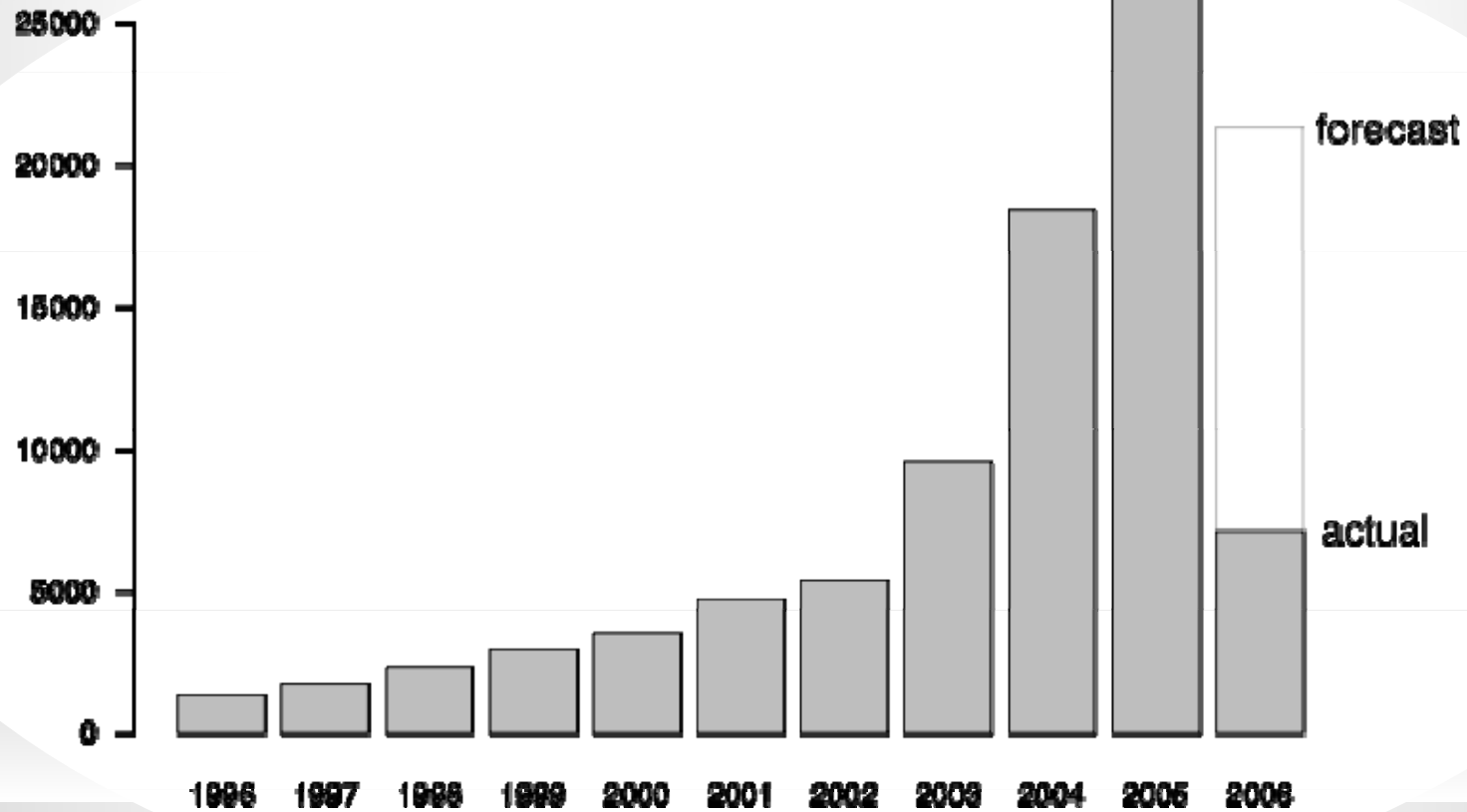
Background

U.S. Subprime Lending Expanded Significantly 2004-2006



Background

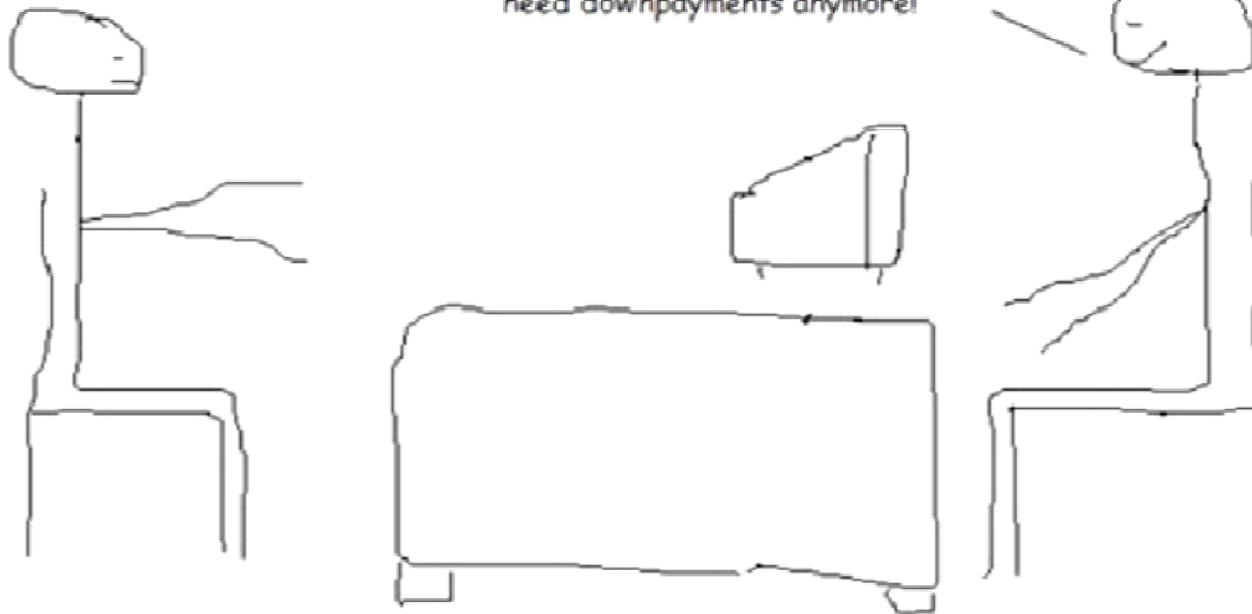
*Bad debt



Securitization

Gee, I'd like to buy a house but I haven't saved any money for a downpayment and I don't think I can afford the monthly payments. Can you help me?

Sure! Since the value of your house will always go up, we don't need downpayments anymore!



Securitization

And we can give you a really really low interest rate for a few years. We'll raise it later, okay?

Sure, no problem. Umm, there's one other thing.... my employer is a real prick and might not verify my employment. Would that be a problem?

Nope. We can get you a special "Liar's Loan" and you can verify your own employment and income!



Securitization



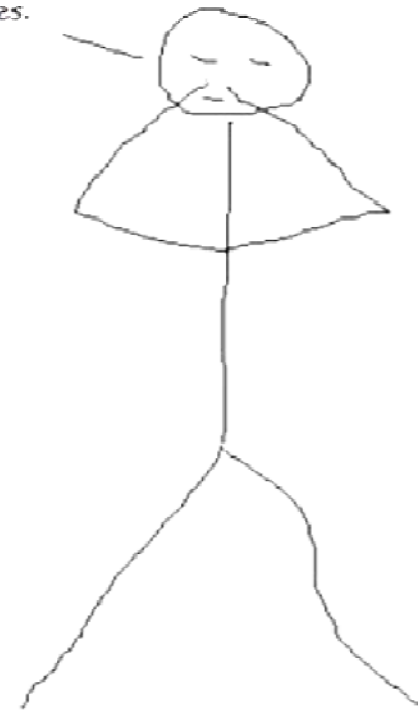
I'd better get rid of these crappy mortgage loans. They are starting to stink up my office. Thankfully the really smart guys in New York will buy them and perform their financial magic! I'll call them right away!

NEW MORTGAGE
FILE



Securitization

Phew!!! We'd better get rid of these shitty mortgages before they start attracting flies.



Securitization



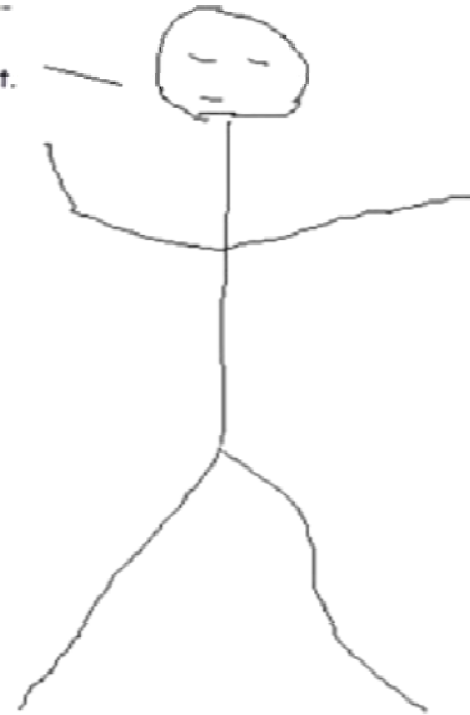
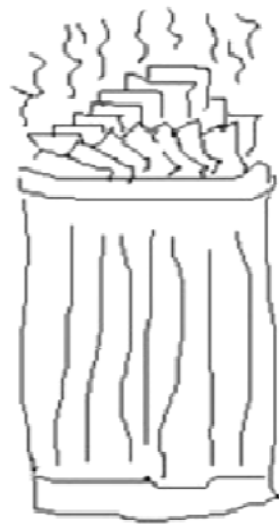
Securitization

I've got it! First We'll create a new security and use these crappy mortgages as collateral. We'll call it a CDO (or maybe CMO). We can sell that CDO to investors and promise to pay them back as the mortgages are paid off.



Securitization

Individually these are pretty crappy loans, but if we pool them together only some of them will go bad -- certainly not all of them. And since housing prices always go up, we really have very little to worry about.

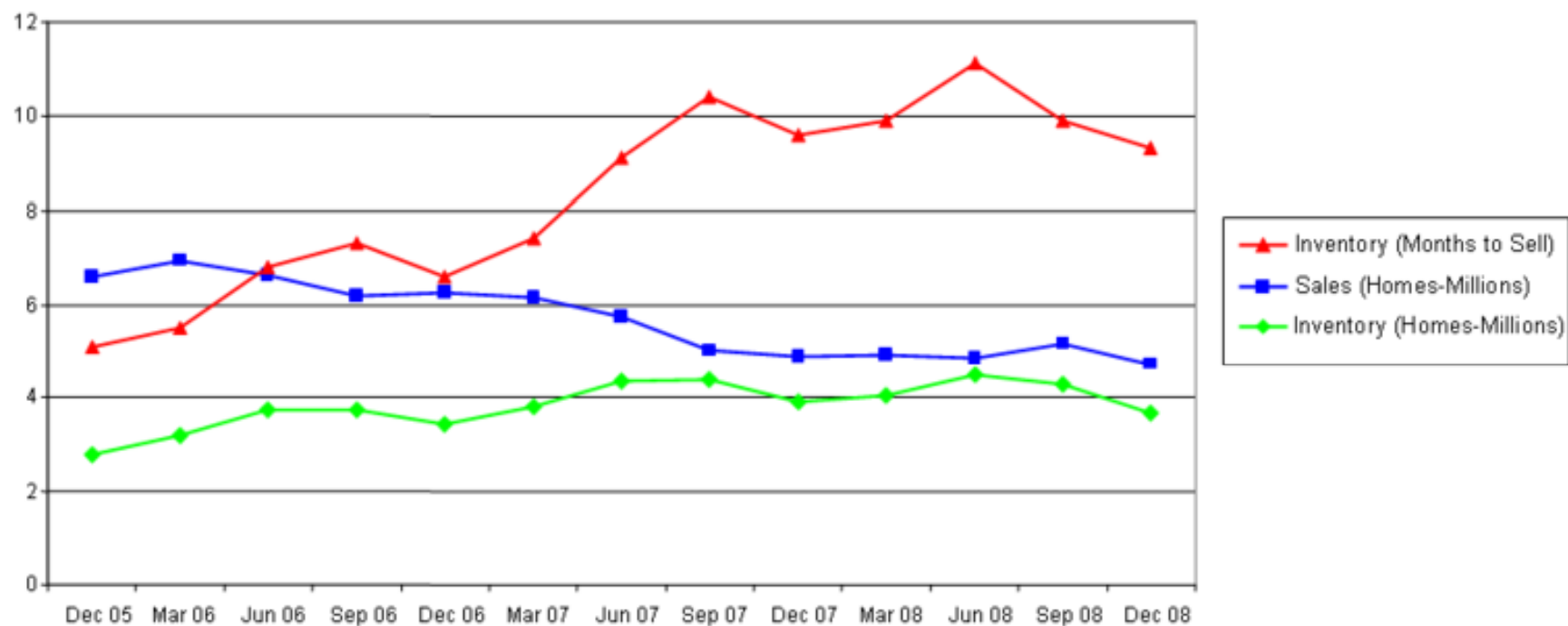


 **THINGS BEGAN!**

THINGS BEGAN!

Too Many Houses Inventory

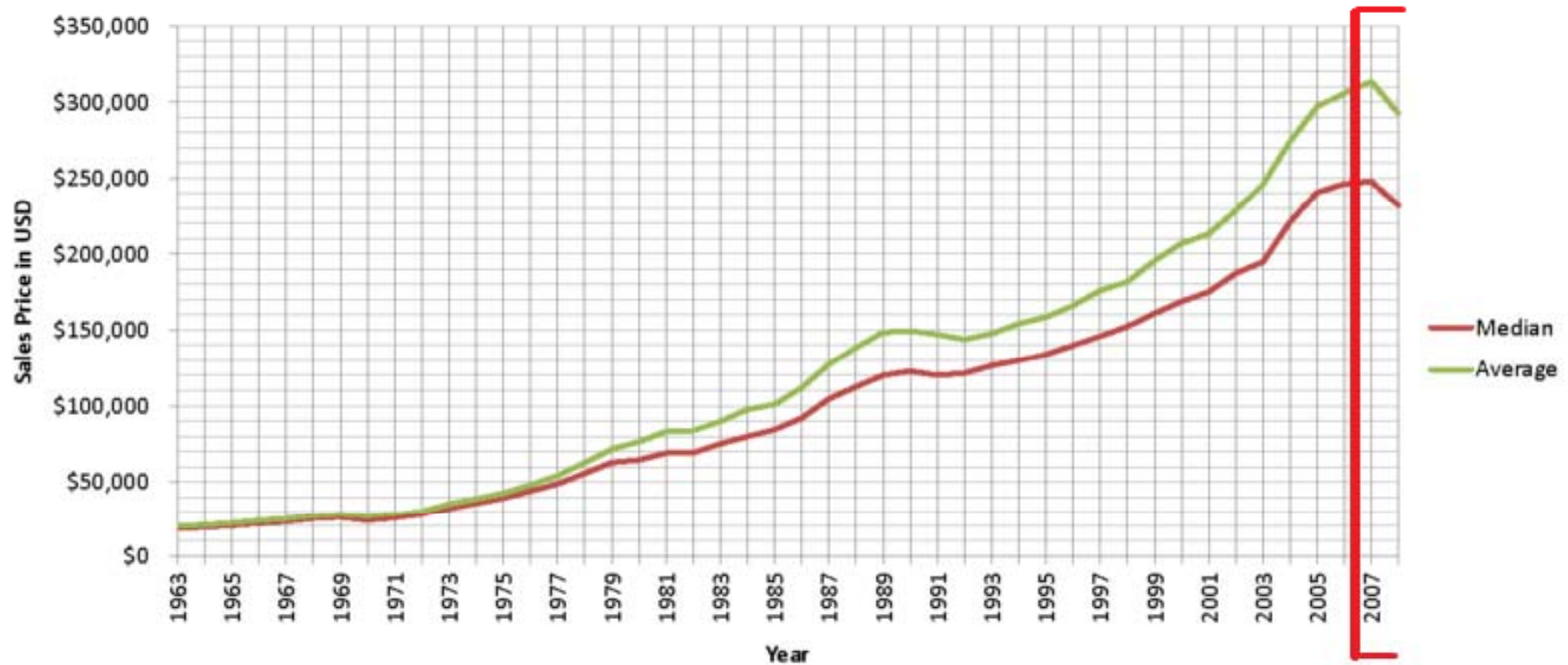
U.S. Existing Home Sales, Inventory, and Months Supply
December 2005 – December 2008



Each sales data point (blue line) is annualized based on the most recent month's rate of sale.
The inventory figure (green line) represents the number of homes for sale at a point in time.
The inventory months to sell (red line) is how many months it would take to sell the existing inventory.

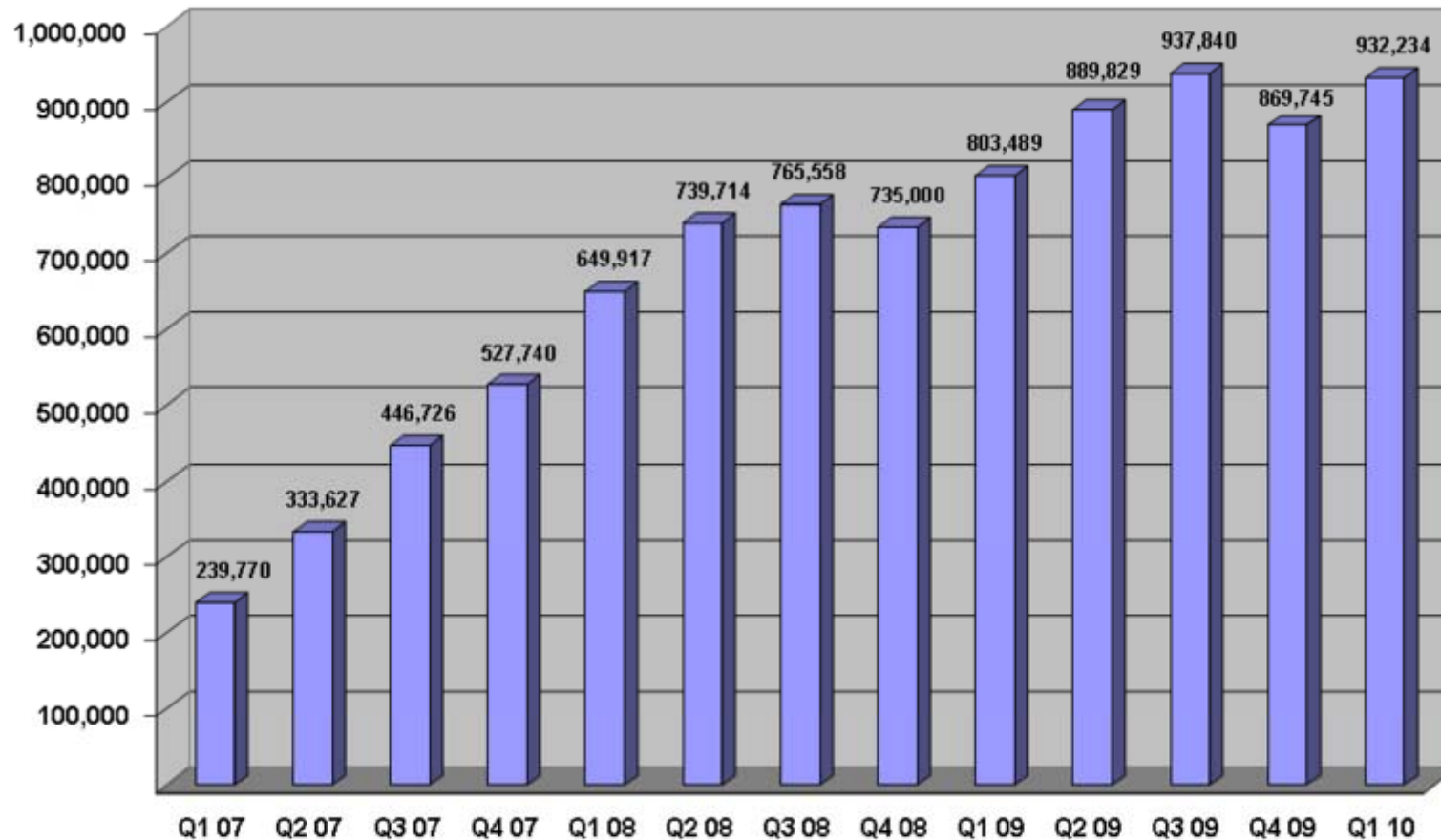
Subsiding Prices of Houses

Median and Average Sales Prices of New Homes Sold in United States
1963-2008 Annual Data

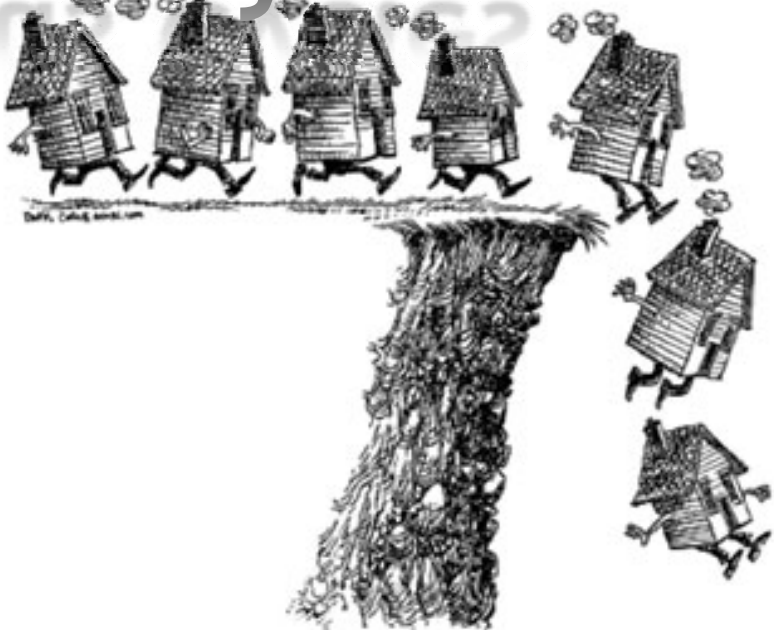


Less Refinance Then Foreclosure

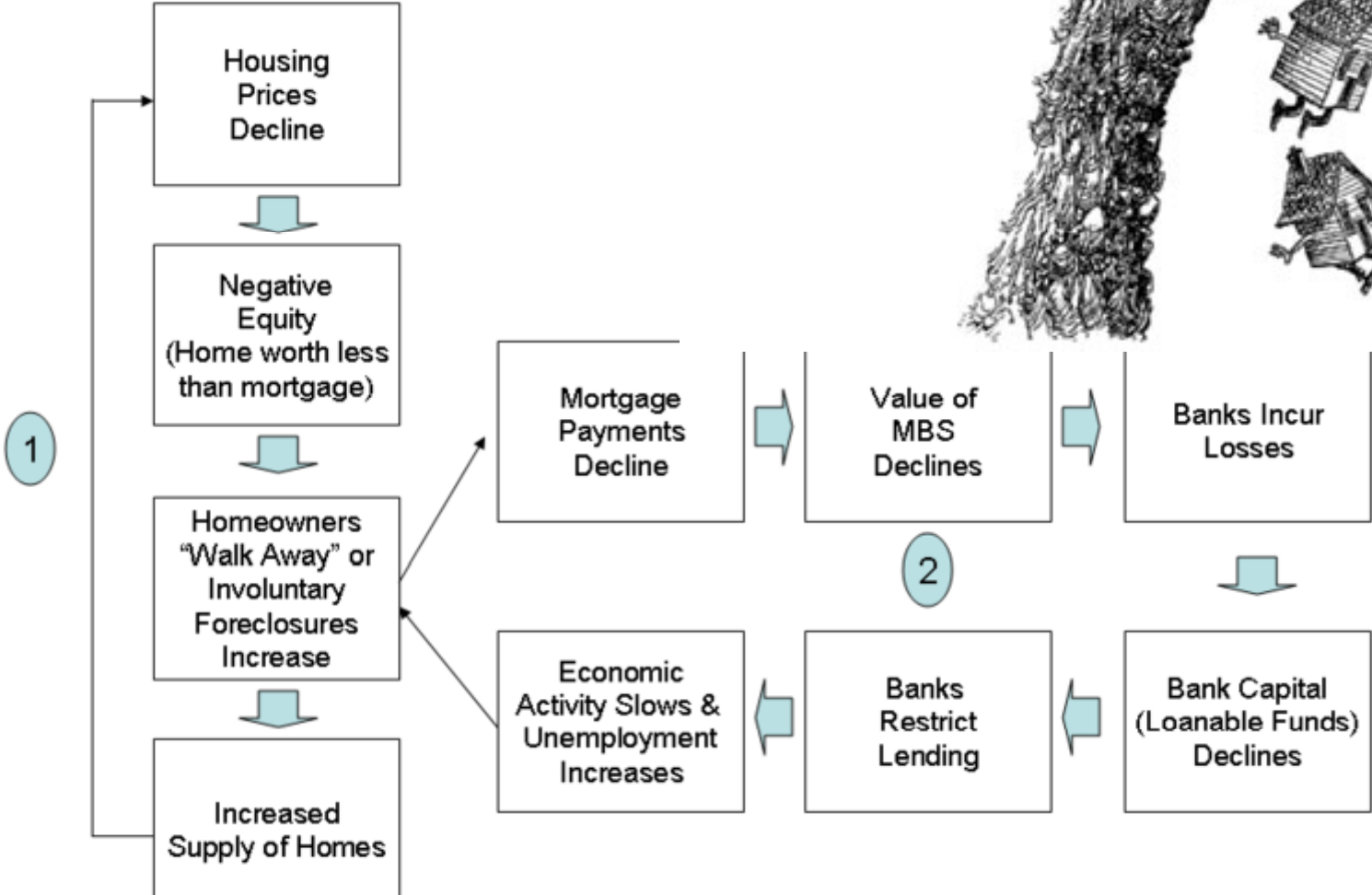
U.S. Properties with Foreclosure Activity



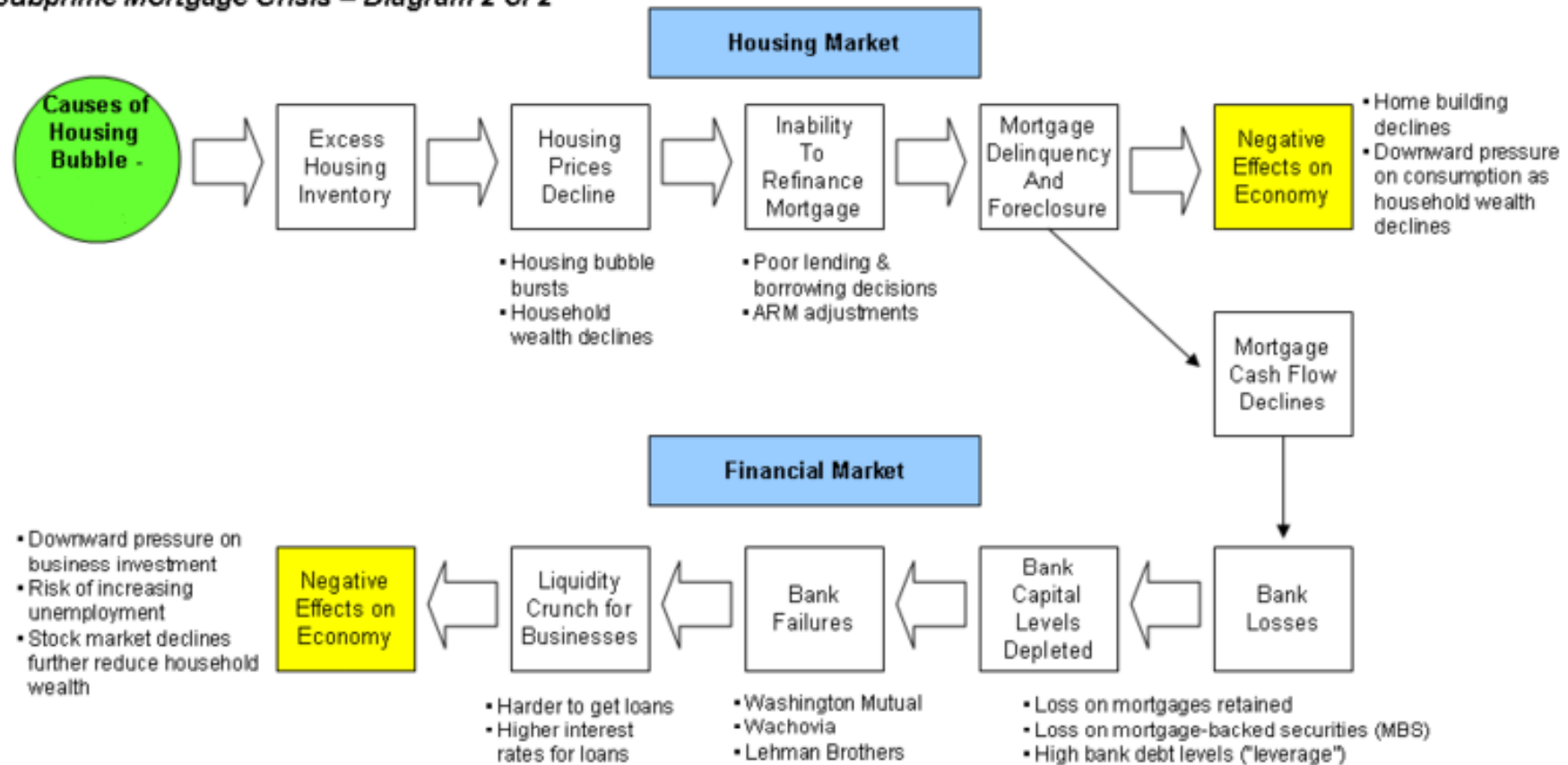
Vicious Cycles

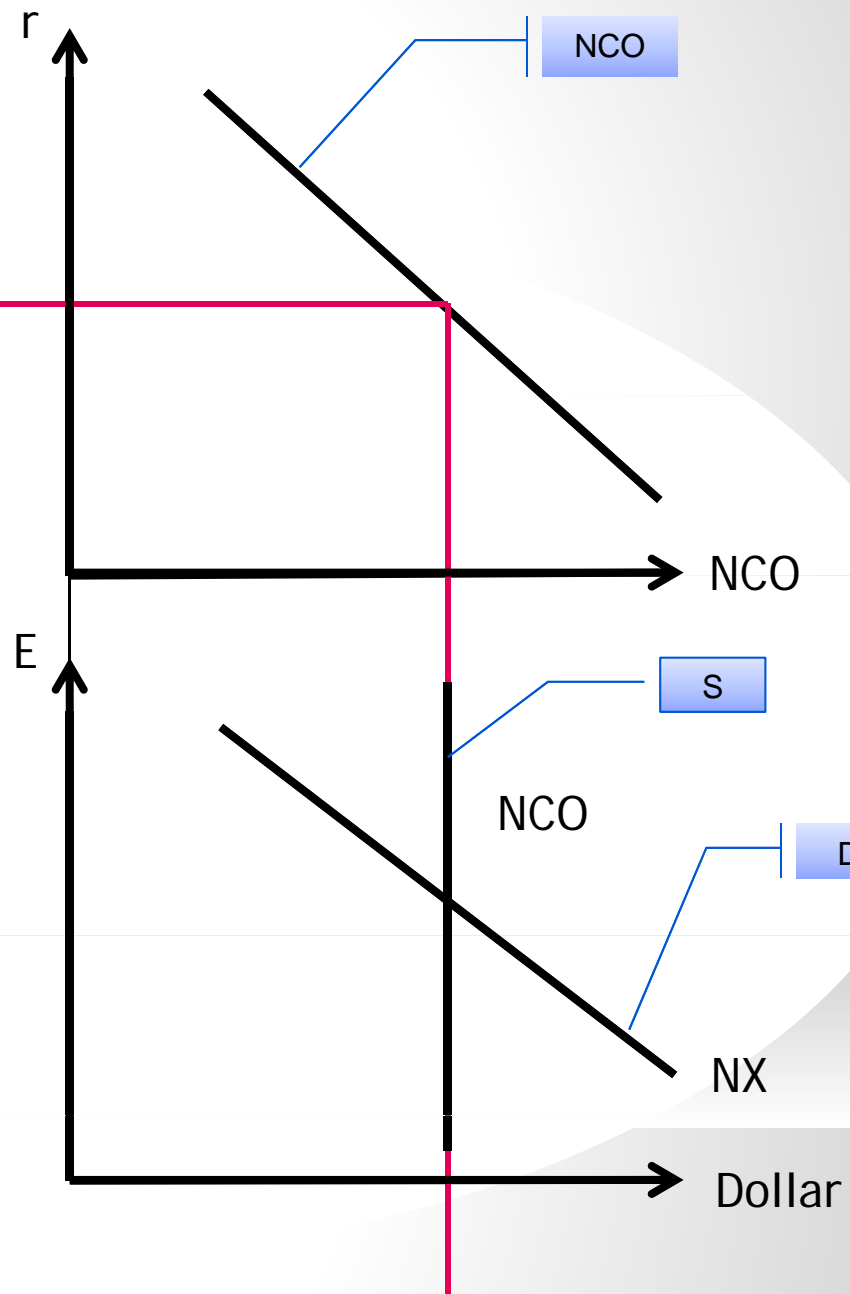
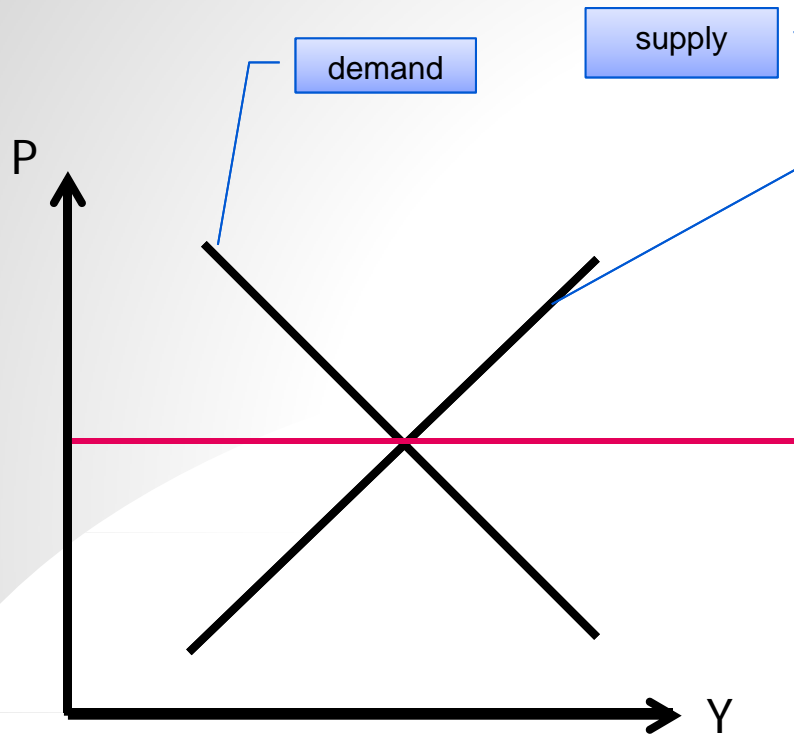


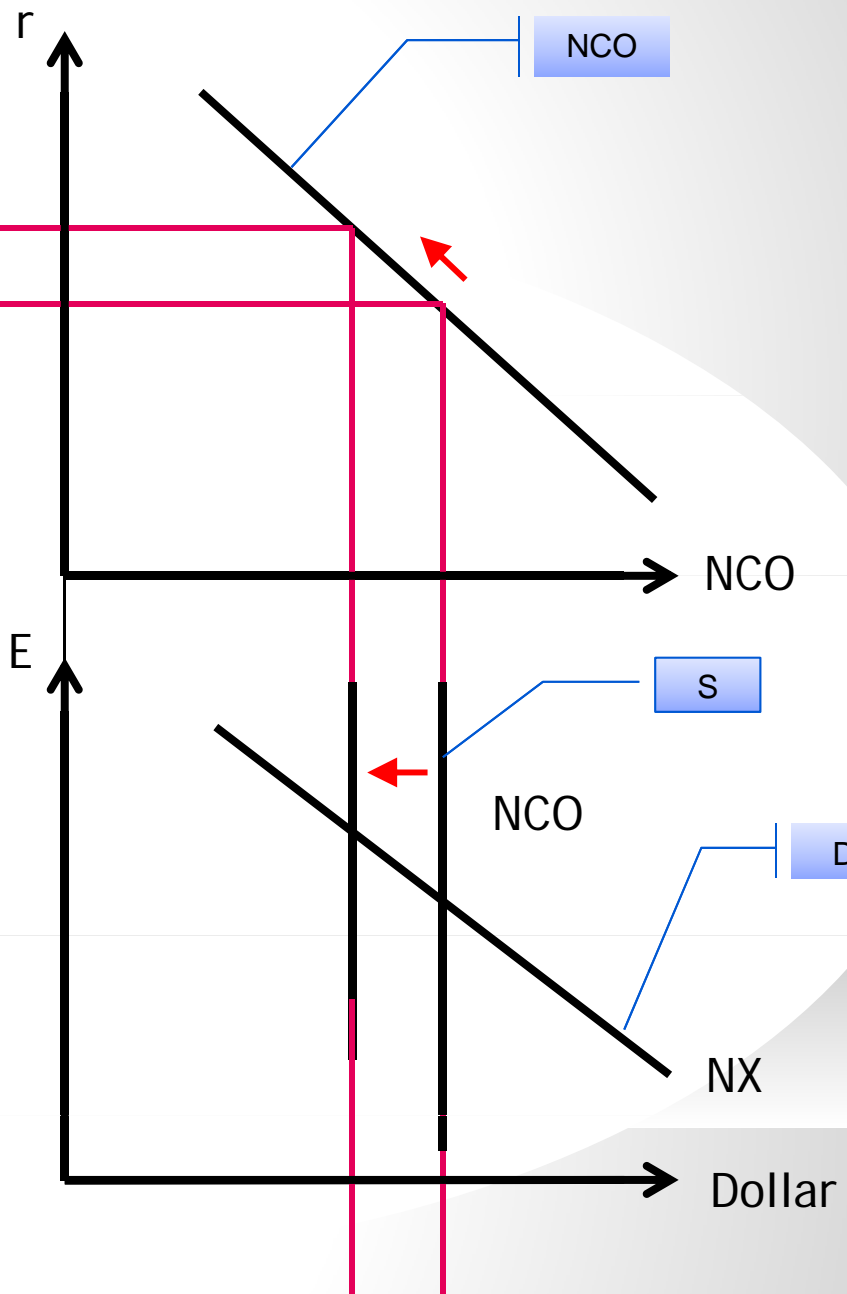
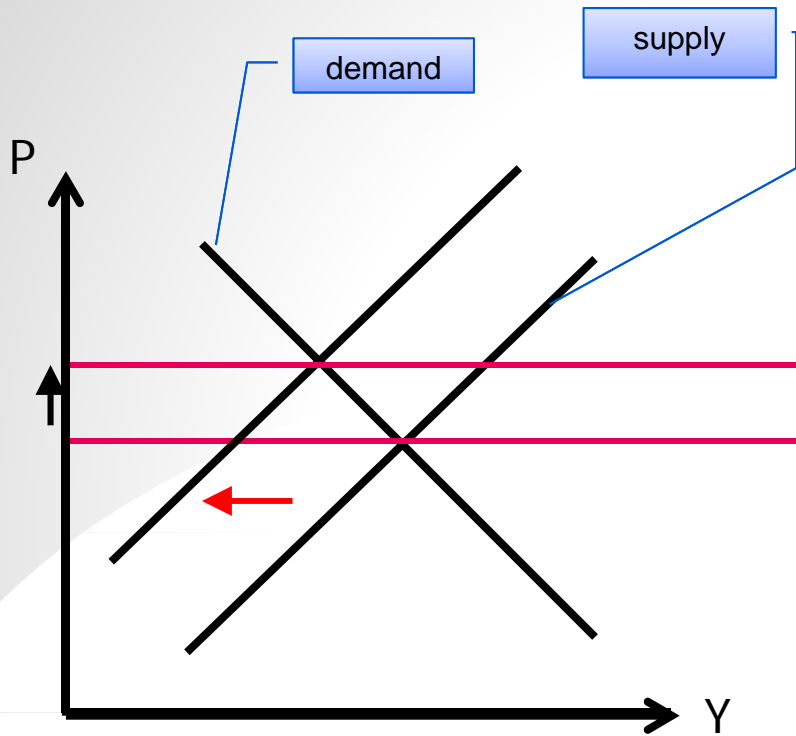
Subprime Mortgage Crisis: "Vicious Cycle"

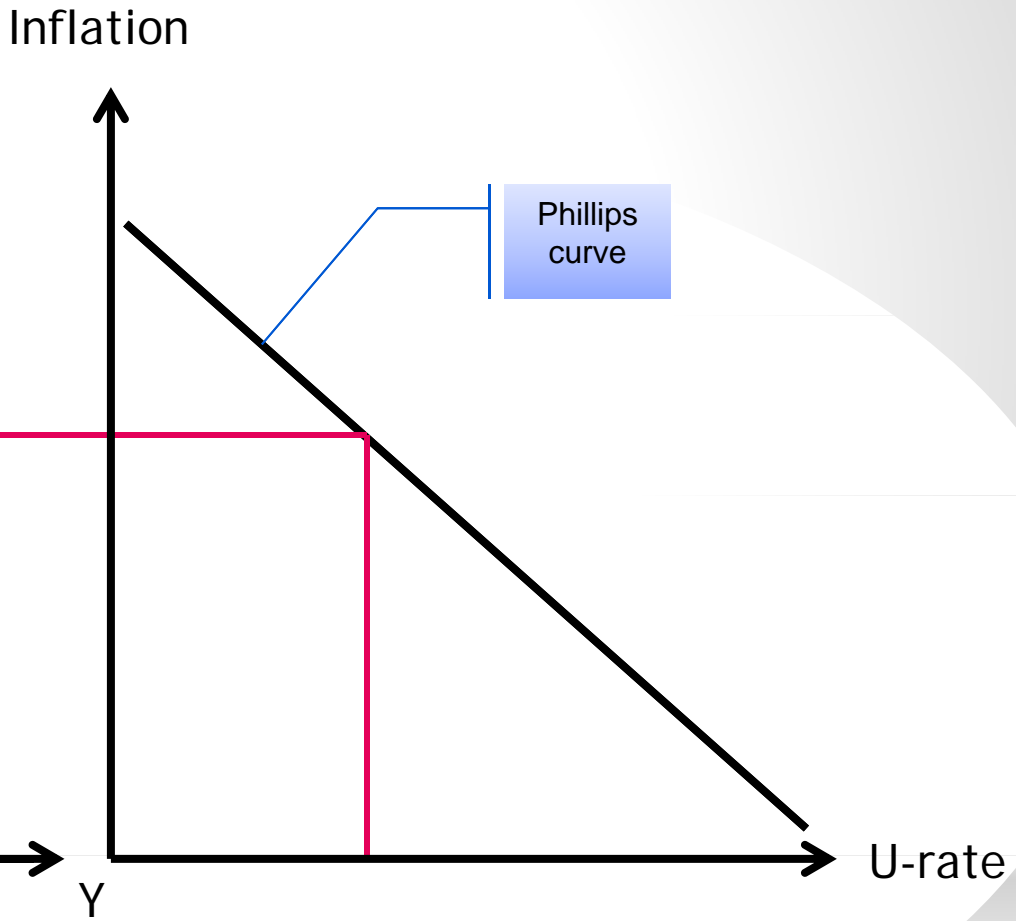
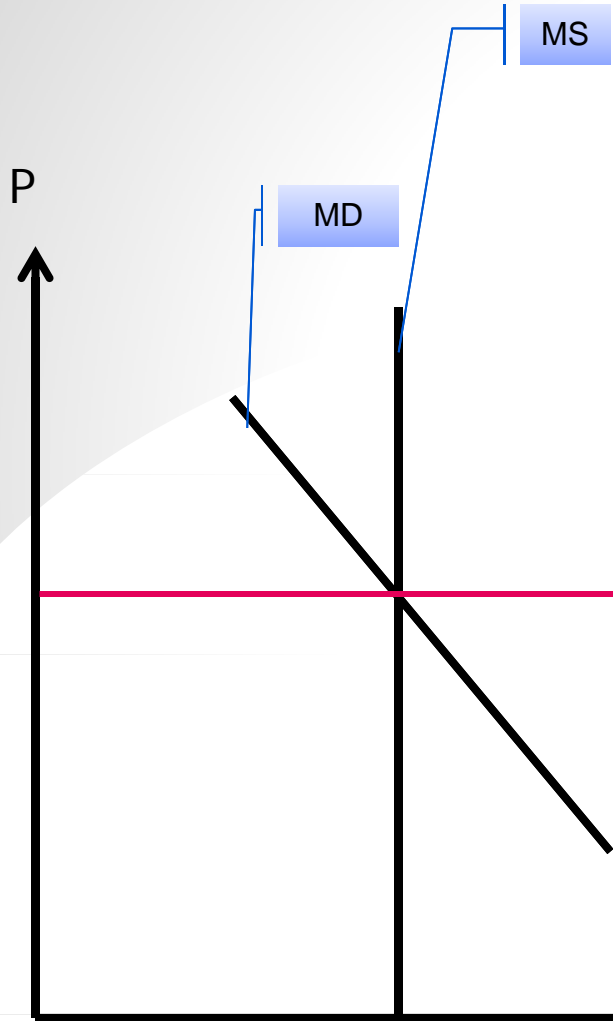


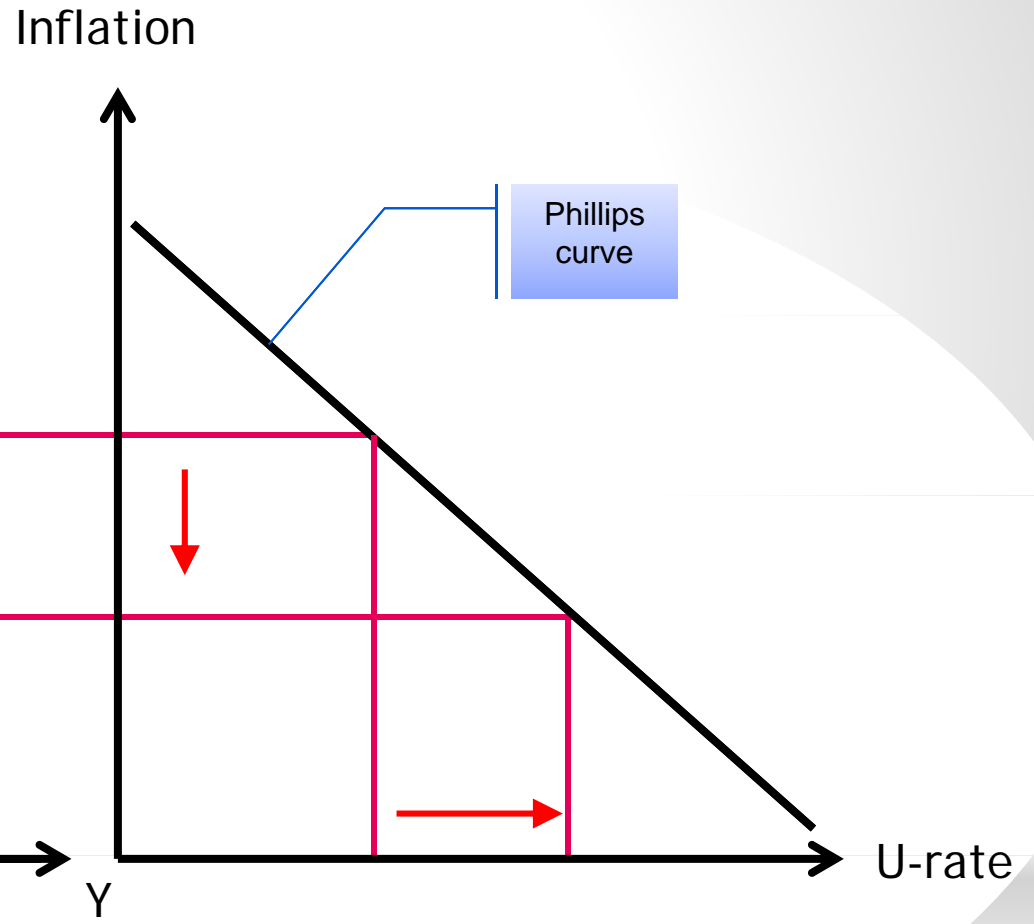
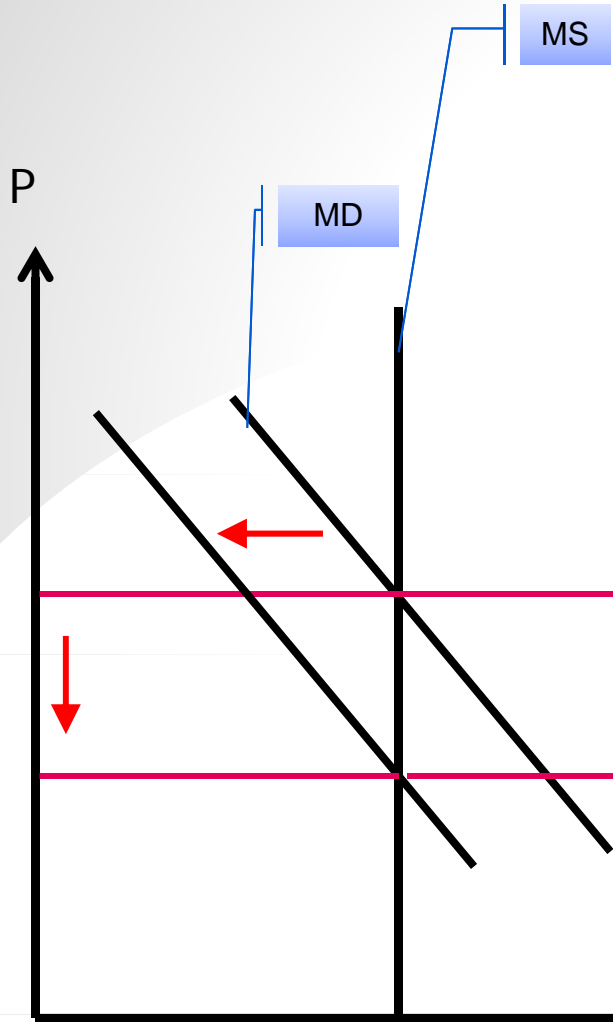
Subprime Mortgage Crisis – Diagram 2 of 2













*Consume	DOWN
Investment	DOWN
Net Export	DOWN
Unemployment	UP

Distribution

In the Polices & Response

- Short-run responses
- Long-run responses

As for: Short-run responses

Generally

➤ TWO TRACKS:

- major financial instability increased awareness
- government agencies, political officials and regulators spent trillions of dollars in loans & asset

*Policy 1

Federal Reserve and central banks

- Response in two methods:
- making efforts to support market liquidity
- functioning the pursuit of macroeconomic objectives through monetary policy.

*Actions

1. Lowered the Federal funds rate and the discount rate
2. Undertaken open market operations
3. Created a variety of lending
4. Purchase the MBS of the GSE
5. Purchase mortgage-backed securities

Quotation:

“...expand the Fed balance sheet means the Fed is electronically creating money”

“...because our economy is very weak and inflation is very low. When the economy begins to recover, that will be the time that we need to unwind those programs, raise interest rates, and reduce the money supply”

----Federal Reserve Chairman Ben Bernanke

Policy 2 Economic stimulus

* President Bush



* President Barack Obama



Policy 3 Bank solvency and capital replenishment

➤ Track:

- Governments provided funds to banks.
- Banks have taken significant steps to acquire additional capital from private sources.

Policy 4 Homeowner Affordability and Stability Plan

1) \$73 billion

for 9 million homeowners avoid foreclosure.

2) \$200 billion

for Fannie Mae and Freddie Mac to purchase and refinance mortgages.

3) Mortgage Companies get incentives to modify loans and help the homeowner stay current.

*Actions:

1. passed the Emergency Economic Stabilization
2. lend funds to banks
3. government and private investors to provide cash in exchange for mortgage-related assets
4. purchase legacy or toxic assets from banks.

* As for:
Long-run responses

Generally

The proposals address:

consumer protection

executive pay

bank financial cushions or capital requirements

...

Which expanded regulation of the shadow banking system, and enhanced authority for the Federal Reserve.

Policy 1 effective reform:

- 1) Expand the FDIC to non-bank financial institutions
- 2) Ensure that a firm is allowed to fail in an orderly way and not be "rescued"
- 3) Ensure taxpayers are not on the hook for any losses, by creating a monetary pool funded by the largest financial institution
- 4) Apply appropriate checks and balances to the FDIC and Federal
- 5) Require stronger capital and liquidity positions

Law investigations, judicial and other responses

Result from:

Significant law enforcement action and litigation is resulting from the crisis.

Result in:

Over 300 civil lawsuits were filed in federal courts during 2007 related to the subprime crisis.

TEAM LEADER

William Huang