



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Everyone's Smart University

Assignment 1 (Spring 2021)

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Section

Bachelor

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MGM112

Introduction to economics

Instructions:

تحدث عن اهم الازمات الاقتصادية التي هزت العالم من حيث الاسباب التي أدت إلى حدوثها، ونتائجها.
*بما لا يزيد عن صفحة من خلال فهمك لأحداثها.

*يرفع الاختبار ب صيغة pdf

مع تحيات محبكم ابراهيم رائد عبد الكريم

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للاستفسار من خلال البريد الإلكتروني

Instructor's Name: Dr. Ibrahim read

In this assignment I will be mentioning three economy crises, what caused them and the outcome/ after math of the following happenings. This is a somewhat long assignment as I have researched about multiple crises and the history of them.

1. Corona virus economy crisis outspread.

COVID-19 is caused by infection with the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) virus strains became a global pandemic. Health officials say it originated in a market in Wuhan, China that sold live and dead wild animals that people ate for food, improved health and exuberance and a number of other purposes. *the exact reasons and causes of the virus itself is still is unknown*

First, the COVID-19 crisis has had vastly different effects on different sectors. Because of the Lockdown there was a sudden increase in demand for the technology services, such as home learning, working from home, home entertainment, online shopping and home deliveries of almost everything else, including food. Some companies benefited disproportionately from this wave in demand as their production is scalable.

The second driver of rising markets is that they are forward-looking while economic statistics reflect the past. For example, that UK GDP shrank during the second quarter of the year is less interesting to a financial investor than the fact that during two months during May and June GDP expanded by 2.4% and 8.7% respectively. Recovery began in May and accelerated in June as lockdown restrictions were eased.

It is likely that because of the rapid adaptations happening by companies and consumers to follow the pandemic-supercharged trends are already advancing. For example, In Britain, the share of retail sales made by ecommerce rose from around 7% in 2010 to 20% at the beginning of 2020. It has since jumped to more than 30%.

Even in labor-intensive sectors such as healthcare and government services there has been a replacement of face-to-face delivery with digital booking and screen-based consultations.

Some of the outcomes of this virus spread or pandemic are negative, like people losing their job and people dying because of getting infected by COVID-19. And some are positive, for example food delivery/ restaurants and online services. It varies according to who's getting affected by them.

1. The 1900's flu economy crisis.

The influenza pandemic of 1918–19, also called the Spanish flu, lasted between one and two years. The pandeResearch on the economic effects of the Spanish flu is limited by the lack of economic statistics during that time. Later on in 2008 Garrett instead used historical newspaper reports to benchmark the effects of the pandemic on US businesses. According to Garrett, The effects were large. For example, the Arkansas Gazette in October 1918 was reporting a 30 percent fall in grocery sales and a 40–70 percent fall in sales at merchants and department stores. At the same time, sales of medical drugs and mattresses were rising. There were reports that severe labor shortages were affecting and industrial output occurred in three waves, though not simultaneously around the globe.

During the 1918 Spanish influenza pandemic, cities closed many public places and services such as, educational places and entertainment zones/residencies to prevent the spread of the deadly disease. After three to five weeks, churches and entertainment spaces largely reopened -- though school closures lasted longer, according to researches.

In the United States, the flu's toll was much lower: a 1.5 percent decline in GDP and a 2.1 percent drop in consumption. The decline in economic activity combined with elevated inflation resulted in large declines in the real returns on stocks and short-term government bonds.

The 1918 pandemic hit a world population of which a very large share was extremely poor and huge shares of the population were undernourished, in most parts of the world the populations lived in very poor health and overcrowding, poor sanitation and low hygiene standards.

More recent studies released since COVID-19 have found evidence of large and statistically significant effects of the Spanish flu on economic activity. For example, Barro et al (2020) found that the Spanish flu reduced real GDP per capita by around 6 per cent in the typical country over the period 1918–21. Moreover, Correia, Luck and Verner (2020) found that Spanish flu reduced US manufacturing output by 18 per cent, though their findings have been challenged (Rinaldi, Lilley and Lilley 2020).

These were some of the outcomes of the Spanish flu that spread in 1918.

1. The 2008 economy crisis.

When talking about this major crisis, you will be able to see where the outcomes show/ come from in the passages as the go, also how it happened and what caused it.

What Was the Cause of the 2008 Financial Crisis?

Several linked factors were at work.

First, low-interest rates and low lending standards fueled a housing price bubble and encouraged millions to borrow beyond their means to buy homes they couldn't afford. So that resulted in the banks and subprime lenders to try to keep up the pace by selling their mortgages on the secondary market in order to free up money to grant more mortgages.

The crisis began in 2003 then down spiraled until the major fall down in 2008.

In 2006, housing prices started to fall for the first time in decades. 3 at first, realtors applauded. They thought the overheated real estate market would return to a more sustainable level. They didn't consider in a number of factors, such as too many homeowners with questionable credit being approved for mortgage loans, even some for 100% or more of the home's value.

So, many economists place the greatest part of the blame on lax mortgage lending policies that allowed many consumers to borrow far more than they could afford. But there's plenty of blame to go around, here we'll name a few, including:

The predatory lenders who marketed homeownership to people who could not possibly pay back the mortgages they were offered. Also, the agencies who gave those mortgage bundles top investment ratings, making them appear to be safe.

And lastly, the investors who failed to check the ratings, or simply took care to unload the bundles to other investors before they blew up.

Some blamed the Community Reinvestment Act, which pushed banks to make investments in subprime areas. Several studies by the Federal Reserve found it did not increase risky lending.

Others blamed Fannie Mae and Freddie Mac for the entire crisis. To them, the solution is to close or privatize the two agencies. If they were shut down, the housing market would've collapse because they guarantee the majority of mortgages. Deregulation of financial derivatives was a key underlying cause of the financial crisis.

This financial crisis timeline began in March 2008, when investors sold off their shares of investments bank Bear Stearns because it had too many of the toxic assets. Bear approached JP Morgan Chase to bail it out, but the Fed had to sweeten the deal with a \$30 billion guarantee. The situation on Wall Street deteriorated throughout the summer of 2008. It hit rock bottom in 2008

Congress authorized the Treasury Secretary to take over mortgage companies Fannie Mae and Freddie Mac, which cost it \$187 billion at the time. On September 16, 2008, the Fed loaned \$85 billion to AIG as a bailout. In October and November, the Fed and Treasury restructured the bailout, bringing the total amount to \$182 billion. By 2012, the government made a \$22.7 billion profit when the Treasury sold its last AIG shares.

On September 17, 2008, the crisis created a run on money market funds where companies placed excess cash to earn interest on it overnight, and banks then used those funds to make short term loans. During the run, companies moved a record \$172 billion out of their money market accounts into more safe Treasury bonds.

But then Three days later, Treasury Secretary Henry Paulson and Fed Chair Ben Bernanke submitted a \$700 billion bailout package to Congress. Their fast response helped stopped the run, but Republicans blocked the bill for two weeks because they didn't want to bailout banks. They only approved the bill on Oct.1, 2008, after global stock markets almost collapsed.

If the nation's money market accounts had gone bankrupt, business activities and the economy would have ground to a halt. That crisis called for massive government intervention. This was a very possible outcome of the crisis.

The seeds of the financial crisis were planted during years of rock-bottom interest rates and loose lending standards that inflamed a housing price bubble in the U.S. and somewhere else. The aim was to support and sustain the economy by making money available to businesses and consumers at bargain rates.

That resulted in an upward spiral in home prices as borrowers took advantage of the low mortgage rates. Even those with poor or no credit history were able to grasp the dream of buying a home.

The amount spent by the government through the Troubled Asset Relief Program (TARP). got back \$442.6 billion after assets bought in the crisis were resold at a profit.

The public exasperation was widespread. It appeared that bankers were being rewarded for recklessly tanking the economy. But it helped the economy move again. It also should be noted that the investments in the banks were fully redeemed by the government, with interest.

The passage of the bailout package stabilized the stock markets, which hit bottom in March 2009 and then commenced on the longest bull market in its history.

Still, the economic damage and human suffering were immense. Unemployment reached 10%. About 3.8 million Americans lost their homes to foreclosures.

The 2007-2008 financial crisis was a global event that wasn't restricted to the U.S. Other countries that underwent troubles were Ireland's vibrant economy fell off a cliff. Greece defaulted on its international debts. Portugal and Spain suffered from extreme levels of unemployment. Every nation's experience was different and complex.

Lastly, the crisis seemed to have eased out/ ended in 2012.

*Side note: Bubbles occur all the time in the financial world. The price of a stock or any other commodity can become inflated beyond its deep-seated value. Usually, the damage is limited to losses for a few over-enthusiastic buyers.

However the financial crisis of 2007-2008 was a different kind of bubble. Like only a few others in history, it grew big enough that, when it burst, it damaged entire economies and hurt millions of people, including many who were not speculating in mortgage-backed securities.

there was a level of relying on online researches and articles

- Hiba Othman.