



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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Course Code

MGM112

Introduction to economics

Instructions:

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

*يرفع الاختبار ب صيغة pdf

مع تحيات محبكم إبراهيم رائد عبد الكريم

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للاستفسار من خلال البريد الإلكتروني

Instructor's Name: Dr. Ibrahim read

“Major Financial Crises”

The world witnessed 7 major financial crises in the last 100 years. (Great Depression 1932; the Suez Crisis 1956; the International Debt Crisis 1982; the East Asian Economic Crisis 1997-2001; the Russian Economic Crisis 1992-97, the Latin American Debt Crisis in Mexico, Brazil, Argentina 1994-2002, Financial Crisis of 2007–08) and the 8th one is Covid-19 Pandemic.

I’m going to talk about 3 of the major crisis that hit the world throughout history, (the great depression 1932, the Financial Crisis of 2007–08, and the Covid-19 pandemic)

“The Great Depression 1932”

The Great Depression was the worst economic downturn in the history of the industrialized world, lasting from 1929 to 1939. It began after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. Over the next several years, consumer spending and investment dropped, causing steep declines in industrial output and employment as failing companies laid-off workers. By 1933, when the Great Depression reached its lowest point, some 15 million Americans were unemployed and nearly half the country’s banks had failed.

Causes :

According to **Ben Bernanke**, a past chairman of the **Federal Reserve**, the **central bank** helped create the Depression. It used **tight monetary policies** when it should have done the opposite. According to Bernanke, these were the Fed's five critical mistakes:

1. The Fed began raising **the fed funds rate** in the spring of 1928. It kept increasing through a **recession** that started in August 1929.
2. When the **stock market crashed**, investors turned to the **currency markets**. At that time, the **gold** standard supported the **value of the dollars** held by the U.S. government. Speculators began trading in their dollars for gold in September 1931. That created a run on the dollar.
3. The Fed raised **interest rates** again to preserve the dollar's value. That further restricted the availability of money for businesses. More bankruptcies followed.
4. The Fed did not **increase the supply of money** to combat deflation.
5. Investors withdrew all their deposits from **banks**. The failure of the banks created more panic. The Fed ignored the banks' plight. This situation destroyed any of consumers' remaining confidence in financial institutions. Most people withdrew their cash and put it under their mattresses. That further decreased the **money supply**.

The Fed did not put enough money in circulation to get the economy going again. Instead, the Fed allowed the total supply of U.S. dollars to fall.

Effects:

The Great Depression affected all aspects of society. By its height in 1933:

- unemployment had risen from 3% to 25% of the nation's workforce.
- Wages for those who still had jobs fell.
- U.S. gross domestic product was cut in half, from \$103 billion to \$55 billion, due partly to deflation.
- The Consumer Price Index fell 27% between November 1929 to March 1933, according to the Bureau of Labor Statistics

- Panicked government leaders passed the Smoot-Hawley tariff in 1930 to protect domestic industries and jobs, but it worsened the issue.
- World trade plummeted 66% as measured in U.S. dollars between 1929 and 1934.
- The Depression's pain was felt worldwide, leading to World War II.
- Germans were already burdened with financial reparations from World War I. That caused hyperinflation. As a result, the people became desperate enough to elect Adolf Hitler's Nazi party to a majority in 1933.

“Financial Crisis of 2007–08” (The Great Recession)

The immediate cause of the crisis was **the burst of the housing bubble⁽¹⁾** in the United States.

From the 1990s until February 2007, prices of houses in the US increased by a staggering 130 % **This was a housing bubble**. The bubble eventually had to burst.

Causes :

- **Low-interest rates:** During the period from 2000 to 2003, interest rates in the USA were lowered from 6.5 % to 1 %. people began to take more loans to buy homes (Home mortgage loans). The demand for houses increased and hence its price.
- **The global saving glut:** Savings flowed from China, Japan, Germany & the oil-exporting middle-eastern countries into the US economy as the USA was considered to be a safe investment. This

⁽¹⁾ In economic terms, a bubble is when the price of an asset increases above their true intrinsic or fundamental value.

increase in the supply of funds in the US-led to a decline in interest rates. People borrowed more to buy homes and the prices increases

- **Government policies to encourage home loans** like income tax-deductibility of interest paid on home mortgages also led to an increase in demand for houses
- **The Great Moderation (the 1980s to 2007):** The period of 1980s to 2007 in the US was a period of low inflation, low-interest rates, and stable growth. Due to the stability of the economy, people became complacent and they were willing to take up more risks than ever. Therefore, lenders lent more and households borrowed more.

Effects :

The crisis rapidly spread into a global economic shock, resulting in:

- several bank failures.
- Economies worldwide slowed during this period since credit tightened and international trade declined.
- Housing markets suffered and unemployment soared, resulting in evictions and foreclosures.
- Several businesses failed

“COVID-19 Panadamic”

The COVID-19 pandemic is the most impactful pandemic since the Spanish flu in 1918, and the Black Death in 1346. When the pandemic first arose in late 2019 and more consequently in 2020, the world was going through economic stagnation and a significant consumer downturn. Most economists believed a recession, though one which would not be

particularly severe, was coming. As a result of the rapid spread of the pandemic, economies across the world initiated 'lockdowns' to curb the spread of the pandemic.

Effects :

- Many people have lost their jobs or seen their incomes cut.
- Unemployment rates have increased across major economies.
- Most countries now in recession.
- The travel industry has been badly damaged, with airlines cutting flights and customers canceling business trips and holidays.
- The tourism sector has been hit hard, with millions of jobs and many companies bankrupt.
- Retail footfall has seen unprecedented falls as shoppers stayed at home.
- Big shifts in stock markets, where shares in companies are bought and sold, can affect the value of pensions or individual savings accounts.