

ACTIVITY 1

WITNESS BRIEF CARDS

Witness Brief Card #1

You are a **Witness for the Prosecution: Mr. Mainy Street**. You represent the average American.

ECONOMIC FACTS: You are struggling. Unemployment rate has risen from 4.6 percent in January 2007 to 10 percent at the end of 2009. By December 2009, 17 states had double-digit unemployment.

FACTS ON THE CREDIT CRUNCH: Many businesses on Main Street cannot get loans. This credit crunch is killing businesses and hurting families. Two reasons for this are tighter regulations on banks after the crisis and banks fearful of making loans when it is not clear that businesses and individuals will be able to repay.

FACTS ON BAILOUT MONEY: Taxpayers provide money in two ways: through direct bailout payments to automobile companies and financial firms and through fiscal policy designed to stimulate spending in the economy. Congress and the president did not increase taxes, but borrowed the money.

The Federal Reserve Board conducts monetary policy and in doing so has

significantly increased the money supply. This injection of new money is intended to provide the liquidity needed for banks and financial firms to survive and to make short- and long-term loans with a goal of helping the economy recover.

FACTS ON AUTO COMPANY BAILOUT: Through congressional legislation, taxpayers funded a more than \$80 billion loan package to GMAC, Chrysler, and GM. Part of the money has been paid back to the government.

FACTS ON HOUSEHOLD DEBT: Nationwide, U.S. household debt as a percentage of GDP reached 100 percent in 2009. It had been 50 percent in the mid-1980s. The last time U.S. household debt was this high was in 1929.

Take a look at Exhibit 1, if you don't believe me. A Columbia University professor said, "The problem is not the banks, greedy though they may be, overpaid though they may be. The problem is us.... We've been living very high on the hog. Our living standard has been rising dramatically in the last 25 years. And we have been borrowing much of the money to make that prosperity happen."

ACTIVITY 1, CONTINUED

WITNESS BRIEF CARDS

WITNESS BRIEF CARD #2

You are a **Witness for the Prosecution: Mr. Falling Down Jones**. You represent a key index of stock ownership held by investors.

FACTS ON THE STOCK MARKET: The Dow Jones Industrial Average peaked on October 11, 2007, at 14,198. Less than a year later, the Dow dropped 778 points in one day of trading to close at 10,365. It reached a decade low of 6,469 in March 2009.

FACTS ON THE DOW'S DIVE AND THE LOSS OF WEALTH: Between the middle of 2007 and the end of 2008, Americans lost an estimated average of more than a quarter of their collective net worth. By early November 2008, a broad U.S. stock index, the Standard & Poor's 500 (S&P 500), was down 45 percent from its 2007 high. Total retirement assets, Americans' second-largest household asset, dropped by 22 percent, from \$10.3 trillion in 2006 to \$8 trillion in mid-2008. During the same period, savings and investment assets (apart from retirement savings) lost \$1.2 trillion and pension assets lost \$1.3 trillion.

Witness Brief Card #3

You are a **Witness for the Prosecution: Mrs. Risky Subprime**. You represent everyone who got a loan even though they had poor credit history.

FACTS ON THE FORECLOSURES: Foreclosures increased 79 percent from

2006 to 2007 and an additional 81 percent from 2007 to 2008. According to the International Monetary Fund (IMF), by April 2009 loss of wealth from mortgage defaults was \$1.4 trillion, compared to \$240 billion in October 2007. By the fall of 2009, more than 14 percent of all mortgages were delinquent or in foreclosure.

ACTIVITY 1, CONTINUED

WITNESS BRIEF CARDS

WITNESS BRIEF CARD #4

You are a **Witness for the Prosecution: Mr. Wally Banker**. You represent all of the big brokerage firms on Wall Street as well as the government-subsidized mortgage giants Fannie Mae and Freddie Mac and insurance giant American Insurance Group (AIG).

FACTS ON THE CONNECTION BETWEEN MRS. RISKY SUBPRIME AND MR. WALLY BANKER: Bankers, mortgage brokers, and investors lent money to Mrs. Risky Subprime because a new set of buyers was needed and all the prime buyers were already homeowners. By 2003, traditional lending standards had been exhausted and innovative financial transactions were created in order to earn profits.

ECONOMIC SITUATION POST 9/11: Interest rates were low during the 2001 recession and after September 11, 2001, under the monetary policy conducted by Fed chair Alan Greenspan. From 2000-2003 the federal funds rate dropped from 6.5 percent to 1.0 percent. Investors leveraged their money with loans and mortgages on houses to earn profits.

FACTS ON THE STRATEGY: Financial institutions began selling mortgages in packages to investors. A shadow banking system of sorts was created. Mortgages, some safe, and some risky, were bundled together and sold as mortgage-backed securities (MBS). They derived their value

from mortgage payments and housing prices.

Once the foreclosures began, there was a domino effect. Investors disappeared from the MBS markets. These financial instruments were ostensibly insured by AIG by the sale of what were described as credit default swaps (CDS). AIG became vulnerable when so many of the bundled packages failed, which is why the government bailed out the insurance company giant. The goal was not to save AIG for its own sake, but to prevent the failure of many other financial institutions, banks, and businesses.

FACTS ON THE HEALTH OF THE “WALLY BANKERS:” One could argue that September 7, 2008, when Fannie Mae and Freddie Mac were placed into conservatorship (under the control of the federal government), was the beginning of the real credit crisis. The following week brought the collapse of Lehman brothers, the bailout of AIG and the almost total freezing up of credit markets. Lehman Brothers filed for bankruptcy. Goldman Sachs and Morgan Stanley became bank holding companies. Merrill Lynch and Wachovia became part of Bank of America and Wells Fargo, respectively, both with financing from the government. The Fed provided financing for JPMorgan Chase to purchase Bear Sterns. AIG remains intact, thanks to a bailout package from Congress and the Fed. In September, Washington Mutual became the largest savings and loan to fail in U.S. history.

ACTIVITY 1, CONTINUED

WITNESS BRIEF CARDS

WITNESS BRIEF CARD #5

You are a **Witness for the Prosecution: Mrs. Glowbell Economies**. You represent all of the economies around the world.

FACTS ON THE GLOBAL ECONOMY IN TROUBLE: Banks around the world joined the bandwagon that the Wall Street companies were riding. MBS and credit default swaps were enticing investment opportunities for investors everywhere, in spite of the risk. When these instruments began to lose value, buyers were not available. Access to credit was limited and, with the demise of Lehman Brothers, short-term credit was close to nonexistent. International financial activities came to a halt and a global panic began.

FACTS ON OTHER NATIONS: Japan's 2009 real GDP was -5.3 percent and the Euro area was -3.9 percent. Former Soviet countries such as Latvia, Estonia, Lithuania, and the Ukraine were suffering double-digit declines in GDP. Among the few countries that experienced real GDP growth were China at 8.2 percent and India at 5.5 percent.

The Royal Bank of Scotland began to fail. The British government had to pump in over \$30 billion to nationalize the bank and protect the U.K. from economic disaster.

WITNESS BRIEF CARD #6

You are a **Witness for the Defense: Mr. Benny Fromthefed**. You represent the U.S. Federal Reserve System.

WHAT DOES THE FED DO? The Federal Reserve System conducts monetary policy and can expand or contract the money supply by using tools that also affect interest rates.

FACTS ON THE FED'S ACTION: Among the many dramatic changes that occurred

during this crisis, the Fed lowered the target federal funds rate from 5.25 percent in September 2007, to a range of 0–0.25 percent in December 2008. Through congressional legislation the Fed began paying banks interest on both required and excess reserves. The Fed also created a number of new monetary tools. The evidence file shows the programs the Fed created to add liquidity into the market and to rid the financial institutions of illiquid toxic assets both at home and abroad.

ACTIVITY 1, CONTINUED

WITNESS BRIEF CARDS

WITNESS BRIEF CARD #7

You are a **Witness for the Defense: President Fizzcal Policy**. You represent those responsible for fiscal policy—the president of the United States and Congress.

The president of the United States and the Congress make fiscal policy. This crisis required fiscal policies designed to expand the economy.

FACTS ON RECOVERY PLANS: In October 2008, the legislation called TARP (Troubled Asset Relief Program) provided up to \$700 billion to purchase financial assets that would permit banks and other financial institutions to continue to function in a productive manner in a very uncertain financial market. In 2009, a second stimulus package, the American Recovery and Reinforcement Act (ARRA), appropriated an additional amount up to \$787 billion. ARRA allowed tax cuts and spending increases amounting to 2 percent of GDP in 2009 and 2.5 percent of GDP in 2010. Fannie Mae and Freddie Mac were given assistance and AIG received an additional commitment. The Federal Deposit Insurance Corporation (FDIC) was offered help in financing the insurance payouts of banks that had closed.

ADDITIONAL FACTS ON THE FDIC:

The FDIC is a part of the federal government and serves as the insurance company and auditor of most banks in the U.S. Banks pay a fee to FDIC to insure deposits. The FDIC played a significant role in this crisis by closing and merging failed banks and insuring the depositors.

FACTS ON DEREGULATION: President Jimmy Carter supported eliminating the “redlining” practice that banks used to exclude minorities from qualifying for loans. President Ronald Reagan deregulated banks. President Bill Clinton allowed commercial banks to get into investment banking, and actively encouraged Fannie Mae and Freddie Mac to give minorities and low income groups access to home ownership even if that meant subprime loans. President George W. Bush continued programs to expand home ownership.

FACTS ON TWO OTHER REGULATORY AGENCIES: The Securities and Exchange Commission (SEC) and the Fed. The SEC changed some key banking regulations that allowed for the creation of more subprime mortgages. The Fed, under Alan Greenspan, chose not to regulate the shadow banking system that created MBS and credit default swaps.

ACTIVITY 1, CONTINUED

WITNESS BRIEF CARDS

WITNESS BRIEF CARD #8

You are a **Witness for the Defense: Mr. Ian Flated Prices**. You represent inflation.

Inflation is defined as a period of a general rise in prices caused by either too much money chasing too few goods or costs of inputs rising.

FACTS CONCERNING IMPENDING INFLATION: Prices increased in 2007 and 2008 and then fell slightly in 2009. However, the expansionary fiscal and monetary policy conducted by the government cause a watch-and-worry mentality. Bank reserves have increased dramatically and could lead to an even greater expansion of the money supply.

WITNESS BRIEF CARD #9

You are a **Witness for the Defense: Ulysses S. Economy**. You represent the economy.

FACTS ABOUT THE ECONOMY: People have been experiencing an economy from 2007-2009 that has not lived up to expectations. According to the Bureau of Labor Statistics, unemployment has been dangerously high, with some groups hit harder than others. Among African Americans, the unemployment rate for 2009 was 16.2 percent compared to 9 percent for whites. For Hispanics, the unemployment rate was 12.9 percent. For teenagers, the unemployment rate was a staggering 48.2 percent in 2009.

And then there is the GDP. Spending by businesses and new personal housing construction fell more than 50 percent in the first quarter of 2009. By the third quarter of the same year, investment had grown by 5 percent.

Consumer spending was also down in the third quarter of 2008, with a 3.5 percent decline followed by another decline of 3.1 percent in the next quarter. Household wealth is down almost \$16 trillion since it peaked in 2007. Between housing-based losses and the stock market crash, 25 percent of personal net worth was wiped out.

Ulysses S. Economy will testify that he was the victim, not the instigator of the crisis. He claims he was the one who has suffered and wants to return to the days when real GDP was growing at a comfortable rate of 3-3.5 percent.

“I want to get back to the days of full employment. The last time I was close was in April 2008 when unemployment was at 5 percent. I appeal to the jury for a not-guilty verdict.”

ACTIVITY 2

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Bailiff: All rise. The Honorable Judge Adam Smith presiding.

Judge Adam Smith: (*Dressed in a robe and carrying a gavel. He enters the courtroom and taps the gavel. The judge's name is chosen in recognition of the father of economics, Adam Smith*) You may be seated. Today this court will hear the case of The People v. Ulysses S. Economy. The defendant is accused on four counts:

Count 1 of the indictment is that Ulysses S. Economy has deteriorated consumer confidence.

Count 2 of the indictment is that Ulysses S. Economy has failed to create jobs.

Count 3 of the indictment is that Ulysses S. Economy has weakened real GDP growth.

Count 4 of the indictment is that Ulysses S. Economy has created turmoil in the global economy.

Mr. (Ms.) Prosecuting Attorney, you may now call your first witness.

Mr. (Ms.) Prosecuting Attorney: The prosecution calls its first witness, Mr. Mainy Street.

Baliff: Raise your invisible hand. I mean your right hand. Sorry your honor. Place your left hand on *The Wealth of Nations* and answer the following question: Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mr. Mainy Street: I do.

Baliff: You may be seated.

Mr. (Ms.) Prosecuting Attorney: Who are you?

Mr. Mainy Street: I am your elderly neighbor, your local entrepreneur, your daughter's high school economics teacher, your son's little league baseball coach, a deployed soldier, and a union autoworker. I am all that America stands for: hard-working, giving, and right now, scared about the future of our nation.

Mr. (Ms.) Prosecuting Attorney: Do you feel that Ulysses S. Economy has let you down?

Mr. Mainy Street: Yes, I do. Factories are closing and the economy has stopped flowing. The city and state governments have to eliminate services because without these jobs, folks are not paying taxes. When businesses do try to get loans, banks are tightening the credit options. This credit crunch is killing businesses and hurting families.

Mr. (Ms.) Prosecuting Attorney: What is causing the credit crunch?

Mr. Mainy Street: A couple of things, I think. First, the bailout money banks received from Congress and the president had new restrictions on lending. Second, banks are simply afraid to make loans because they do not know how secure many small and large businesses really are.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mr. (Ms.) Prosecuting Attorney: You mentioned bailout money. Who provides the bailout money and who decides how much money is given and where the money goes?

Mr. Mainy Street: Taxpayers provide the money through fiscal policy. The money is either raised through taxes or by borrowing. In this case, the federal government borrowed the funds. Congress and the president have decided how much and where it goes. Separately, the Federal Reserve conducts monetary policy and has been attempting to increase the money supply to encourage banks to make loans so that businesses might grow.

Mr. (Ms.) Prosecuting Attorney: Do you think that the federal government should have “bailed out” the car companies in Detroit?

Mr. Mainy Street: I know that the automakers are not just in one city. The reach of Detroit extends to every state in so many ways, from auto parts to local dealerships.

Mr. (Ms.) Prosecuting Attorney: Mr. Mainy Street, do you share some responsibility for this situation?

Mr. Mainy Street: Yes, I do. My friends and I have been on a buying spree. Just look at household debt, if you don’t believe me.

Mr. (Ms.) Prosecuting Attorney: Your honor, I would like to have entered Exhibit #1 into evidence. *(Teacher displays Visual 4)*

Judge: Are there any objections?

Mr. (Mrs.) District Attorney: No, your honor.

Judge Adam Smith: So ordered.

Mr. (Ms.) Prosecuting Attorney: *(Shaking his hand at the witness)* Mr. Mainy Street, some have said that the problem is not the banks, greedy and overpaid though they may be. The problem is us... We’ve been living very high on the hog. Our living standard has risen dramatically in the last 25 years. And we borrowed much of the money to make that prosperity happen. What do you have to say for yourself?

Mr. Mainy Street: I am embarrassed, humiliated, and sorry, but then again, I am not on trial here, right?

Mr. (Ms.) Prosecuting Attorney: There are no further questions, your honor.

Judge Adam Smith: You may call your next witness.

Mr. (Ms.) Prosecuting Attorney: The prosecution calls its next witness, Mr. Falling Down Jones.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mr. Falling Down Jones: I do, but please bear in mind that I don’t have all the answers.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Baliff: *(Under his breath)* That's bull.

Judge Adam Smith: Baliff, did you say something?

Baliff: No, your honor. Sorry.

Judge Adam Smith: You may be seated Mr. Falling Down Jones.

Mr. (Ms.) Prosecuting Attorney: Who are you and what do you represent?

Mr. Falling Down Jones: I represent 30 stocks that make up the Dow Jones Industrial Average. I am a key index of stocks owned by investors.

Mr. (Ms.) Prosecuting Attorney: How have you been affected by Ulysses S. Economy?

Mr. Falling Down Jones: I was making a pretty amazing run for awhile. I peaked in 2007 then fell dramatically.

Mr. (Ms.) Prosecuting Attorney: Your honor I would like to enter as evidence Exhibit #2. *(Teacher displays Visual 5)*

Judge: Are there any objections?

Mr. (Mrs.) Defense Attorney: No, your honor.

Judge: So ordered.

Mr. (Ms.) Prosecuting Attorney: Do you share some responsibility for this situation?

Mr. Falling Down Jones: Yes, I do. Many investors were too bullish on the

market, buying stocks with high P/E ratios (that is, the price of a stock divided by the earnings per share). That means that the price of the stock did not necessarily represent the true value of the company. A lot of folks lost a lot of wealth that they had built up for their children's education and their own retirement.

Mr. (Ms.) Prosecuting Attorney: How much wealth was lost?

Mr. Falling Down Jones: Between June 2007 and December 2008, Americans lost more than a quarter of their collective net worth. Savings and investment assets (apart from retirement savings) fell by \$1.2 trillion and pension assets shrank by \$1.3 trillion.

Mr. (Ms.) Prosecuting Attorney: So Ulysses S. Economy has let you down?

Mr. (Mrs.) Defense Attorney: Objection your honor. Leading the witness.

Judge Adam Smith: Objection overruled. Proceed.

Mr. Falling Down Jones: Yes Ulysses S. Economy has let me down, but I am trying hard to make a comeback. Since December 2009, I have been consistently over 10,000 points. Most days.

Mr. (Ms.) Prosecuting Attorney: There are no further questions your honor.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Judge Adam Smith: You may now call your next witness.

Mr. (Ms.) Prosecuting Attorney: The prosecution calls its next witness, Mrs. Risky Subprime.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mrs. Risky Subprime: I do, trust me.

Baliff: You may be seated.

Mr. (Ms.) Prosecuting Attorney: There are many people who feel that you are to blame for starting this crisis. You made some bad choices about buying a new house and now you want to blame Ulysses S. Economy for losing your house?

Mr. (Mrs.) Defense Attorney: Objection your honor. Is the prosecuting attorney asking a question or giving us an opinion?

Judge: Objection sustained.

Mr. (Ms.) Prosecuting Attorney: Mrs. Subprime, are you aware that there are many who blame you as the single reason causing Ulysses S. Economy to fall precipitously?

Mrs. Risky Subprime: I am aware of that, yes.

Mr. (Ms.) Prosecuting Attorney: Were you aware that the mortgage papers you signed obligated you to

make your payments on time and in full?

Mrs. Risky Subprime: Yes, but you don't understand.

Mr. (Ms.) Prosecuting Attorney: What is it that I don't understand, Mrs. Risky Subprime?

Mrs. Risky Subprime: (*Seeming weepy*) One minute I am renting a nice house that I can afford and the next minute I learn that there are some too-good-to-be-true loans available to folks like me who live from paycheck to paycheck. They promised that housing prices would continue to rise and I would have no problem refinancing. I had no money to pay down on the loan, but the banker said I could buy the house without paying any money upfront. Sound borrowers are called prime borrowers but I am less than prime. They call me subprime. Imagine how that makes me feel.

Judge Adam Smith: Mrs. Risky Subprime, do I need to call a recess?

Mrs. Risky Subprime: No honor, I can finish my testimony.

Judge Adam Smith: Very well. Proceed.

Mrs. Risky Subprime: So sure, I signed the papers because I trusted the loan officer who shook my hand and said, "Congratulations, you have just bought a house." I paid a good many months but then my mortgage

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

adjusted from an initial low payment to a much higher payment. I got behind and I didn't have the income to pay my bills and my mortgage. Walking away from my obligation wasn't right but because I didn't have a down payment to lose, it was easier than I thought it would be, plus I had no choice. The bank was foreclosing on my loan. In 2010, more than 10 percent of all mortgages are delinquent and 4.5 percent are in foreclosure.

Mr. (Ms.) Prosecuting Attorney: Your honor, allow me to enter into evidence displays of the foreclosure rates. (*Teacher displays Visual 6*)

Judge Adam Smith: So ordered.

Mr. (Ms.) Prosecuting Attorney: Why did the bank lend you money?

Mrs. Risky Subprime: I really don't know, but I wish they hadn't. You will have to ask Mr. Wally Banker about why he lent me money. Overall, Ulysses S. Economy let me down, but I know that I let Ulysses S. Economy down, too.

Mr. (Ms.) Prosecuting Attorney: There are no further questions your honor.

Judge Adam Smith: Mr. (Ms.) Prosecuting Attorney, you may call your next witness.

Mr. (Ms.) Prosecuting Attorney: The prosecution calls Mr. Wally Banker.

Baliff: Raise your right hand and place

your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mr. Wally Banker: I do, you can bank on it.

Baliff: You may be seated.

Mr. (Ms.) Prosecuting Attorney: Where do you work?

Mr. Wally Banker: Wall Street.

Mr. (Ms.) Prosecuting Attorney: Who do you represent?

Mr. Wally Banker: I am Goldman Sachs, Lehman Brothers, Bear Sterns, JP Morgan Chase, and other big banking powerhouses. I am also mortgage giant Fannie Mae and Freddie Mac and insurance giant AIG.

Mr. (Ms.) Prosecuting Attorney: Why did bankers and mortgage brokers and investors lend money to Mrs. Risky Subprime?

Mr. Wally Banker: The quick answer is that we needed buyers and all the good prime buyers were already homeowners. By 2003, traditional lending standards had been exhausted. We needed innovative financial transactions in order to make a profit.

Mr. (Ms.) Prosecuting Attorney: Why did you need buyers? What do houses bought on Main Street have to do with Wall Street?

Mr. Wally Banker: We took advantage of borrowing low-interest-rate

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

money and turned it into a lot more money.

Mr. (Ms.) Prosecuting Attorney:
Go on.

Mr. Wally Banker: Investors wanted a part of this action so lenders began selling mortgages in packages to investors. We created a shadow banking system of sorts. We took these mortgages, some safe, some not so safe, and some downright risky, and bundled them together. These repackaged mortgages were sold and resold again and again all with the idea that they were insured from loss. These bundles derived their value from mortgage payments and housing prices. But when subprime borrowers failed to make their payments, foreclosures began and the bundles became unwanted, illiquid, and toxic.

Mr. (Ms.) Prosecuting Attorney:
What would have happened with just one foreclosure?

Mr. Wally Banker: One would not have been bad. The bank would have taken ownership of the house and put it up for sale. The problem is that with so many foreclosures, more houses were put up for sale and exceeded the number of houses people wanted to buy. Even folks who could afford their houses walked away from their obligation because their house was suddenly worth less.

Mr. (Ms.) Prosecuting Attorney:
How significant are the foreclosures?

Mr. Wally Banker: As Mrs. Subprime testified earlier, foreclosures hit home. By the end of 2009, more than 14 percent of all mortgages were either delinquent or in foreclosure.

Mr. (Ms.) Prosecuting Attorney:
How did billionaire Warren Buffet characterize the insurance on these mortgage bundles provided though credit default swaps in a letter to his shareholders in 2002?

Mr. Wally Banker: He called them “financial weapons of mass destruction.”

Mr. (Ms.) Prosecuting Attorney:
Just a few more questions. You mentioned earlier in your testimony the companies you represented. What has happened to those companies?

Mr. Wally Banker: Lehman Brothers filed for Chapter 11 bankruptcy, Goldman Sachs and Morgan Stanley became bank holding companies. Merrill Lynch and Wachovia no longer exist independently after they were purchased by Bank of America and Wells Fargo, respectively. The Fed provided financing for JPMorgan Chase to purchase Bear Stearns. AIG remains intact thanks to a multi-billion dollar bailout from Congress and the Fed, as do Fannie Mae and Freddie Mac thanks to an up to \$200 billion bailout from Congress.

Mr. (Ms.) Prosecuting Attorney:
That is a lot of money for some very big companies that made risky financial transactions. Why should taxpayers bail you big guys out?

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mr. Wally Banker: Tough question but easy answer: These companies were too big to fail. The domino effect would have led to a totally failed economy, a depression. Wall Street and Main Street are not on parallel paths to a healthy economy; they intersect.

Mr. (Ms.) Prosecuting Attorney: Mass destruction indeed. No further questions.

Judge Adam Smith: You may call your next witness.

Mr. (Ms.) Prosecuting Attorney: The prosecution calls its next witness, Mrs. Glowbell Economies.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mrs. Glowbell Economies: I do.

Mr. (Ms.) Prosecuting Attorney: Where do you live Mrs. Glowbell Economies?

Mrs. Glowbell Economies: Everywhere beyond the United States. You can find me in Europe, China, India, everywhere.

Mr. (Ms.) Prosecuting Attorney: Where does the problem begin?

Mrs. Glowbell Economies: Banks worldwide jumped on the bandwagon that the Wall Street companies were riding. Just like Mr. Wally Banker testified, those new subprime mortgage

packages were enticing investment opportunities for investors everywhere, in spite of the risk. When some of the mortgages inside these instruments failed, buyers were not available. Banks became nervous. Access to credit was limited and with the demise of Lehman Brothers, short-term credit was close to nonexistent. International trade came to a halt and a global panic began.

Mr. (Ms.) Prosecuting Attorney: Have other countries been affected?

Mrs. Glowbell Economies: Yes. If I may, I would like to direct your attention to data provided by *The Economist* magazine.

Mr. (Ms.) Prosecuting Attorney: Your honor, allow me to enter this chart into evidence as Exhibit #4. *(Teacher displays Visual 7)*

Judge Adam Smith: Are there any objections?

Mr. (Mrs.) Defense Attorney: Yes, your honor, I do not see what the GDP of other nations in the world has to do with my client.

Judge Adam Smith: If you do not understand the connection, I suggest you return to your high school economics class. The chart is admitted into evidence but your objection is noted. Proceed.

Mr. (Ms.) Prosecuting Attorney: What countries have been hurting the most?

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TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mrs. Glowbell Economies: As you can see, Japan and the Euro area were hit hard. The former Soviet countries such as Latvia, Estonia, Lithuania, and the Ukraine suffered double-digit declines in real GDP. Among the few countries that experienced real GDP growth were China at 8.2 percent and India at 5.5 percent.

Mr. (Mrs.) Prosecuting Attorney: Your honor, the prosecution rests.

Judge Adam Smith: Mr. (Mrs.) Defense Attorney, you may call your first witness.

Mr. (Mrs.) Defense Attorney: Thank you, your honor. I would like to call Mr. Benny Fromthefed.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mr. Benny Fromthefed: You bet I do.

Mr. (Mrs.) Defense Attorney: What is your relationship with the defendant?

Mr. Benny Fromthefed: I spend the better part of my day trying to get Ulysses S. Economy back on track by using the tools I have available to me at the Fed as well as creating a number of new ones, all with the goal of injecting liquidity into the market.

Mr. (Mrs.) Defense Attorney: Your honor, I would like to enter the follow-

ing chart into evidence as Exhibit #5. (*Teacher displays Visual 8*)

Judge: Are there any objections?

Mr. (Ms.) Prosecuting Attorney: Yes, your honor. These numbers are likely to preudice the jury. I cannot possibly see how they will convict the defendant when they realize how much money was needed to prevent an economic crisis.

Judge Adam Smith: Your objection is noted but the evidence is admitted. Proceed.

Mr. (Mrs.) Defense Attorney: (*Looking at the visual*) You have obviously made an exceptional effort to avoid a collapse of the defendant. For those persons in the jury who cannot see, please tell us the total amount of money that has been committed by the Fed and how much money has been spent.

Mr. Benny Fromthefed: At the peak, the largest programs supplied \$1.5 trillion of funds. In addition, I supplied \$120 billion to specific institutions. The Fed's assets have increased from about \$900 billion to almost \$2.5 trillion. That is significant evidence that I have been trying to save the financial system and stimulate the economy.

Mr. (Mrs.) Defense Attorney: Thank you for that information. You obviously felt that there was a great need. When did you first notice that Ulysses S. Economy was heading into trouble?

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TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mr. Benny Fromthefed: In August 2007 but especially in September 2008.

Mr. (Mrs.) Defense Attorney: Some have suggested that the government has provided too much of a safety net for risky decisions others make, the too-big-too-fail financial institutions in particular. Merrill Lynch, Lehman Brothers, Bear Stearns, Goldman Sachs, Morgan Stanley, Fannie Mae and Freddie Mac held the American people hostage by holding \$9 trillion in debt. They ran amok because there was no government regulation of the shadow banking system they had created. What do you say to that?

Mr. Benny Fromthefed: Yes, the government is the parent and these companies are teenagers.

Mr. (Mrs.) Defense Attorney: Please explain.

Mr. Benny Fromthefed: The government failed to give these teenagers a curfew and then, when they went astray, the government bailed them out. The safety net expected to be provided by the “parents” was so comfortable that the teens were not afraid to take thrill-seeking risks. Decisions are easy to make if there are no consequences to bear.

Mr. (Mrs.) Defense Attorney: Do you think that the defendant will one day soon pay his debt to society by creating jobs, sustaining growth, fostering international trade, and restoring consumer confidence?

Mr. Benny Fromthefed: I do. I see green shoots of a healthy, back-on-track economy. If anyone can make it right, it is Ulysses S. Economy.

Mr. (Mrs.) Defense Attorney: I have no other questions for this witness. I would now like to call the President of the United States, Fizzcal Policy.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

President Fizzcal Policy: Absolutely.

Mr. (Mrs.) Defense Attorney: Mr. President, what is your relationship with the defendant?

President Fizzcal Policy: I work alongside Congress to create taxing and spending policies to get the defendant back on track.

Mr. (Mrs.) Defense Attorney: Your honor, I would like to enter into evidence data from the Congressional Budget Office that shows the policies and the money the witness is referring to. This will be Exhibit #6. (*Teacher displays Visual 9*)

(*The attorney views the table and looks embarrassed.*) Your honor, I apologize. There appears to be typographical errors on the exhibit in the final column. Surely those numbers are not hundreds of billions.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

President Fizzcal Policy:

(Interrupting) Actually, those numbers are correct. This is a big package because this is a big problem.

Mr. (Mrs.) Defense Attorney: The initial efforts (the TARP) did not spend all that it could. Were you covering up?

President Fizzcal Policy: No, not at all. It is correct. Some of the institutions have repaid the money that was provided. I expect that the final amount of spending will be about \$110 billion. Most of the institutions have recovered.

Mr. (Mrs.) Defense Attorney: Sounds like there are multiple layers of what the term “bailing out” means, yes?

President Fizzcal Policy: I’m afraid so.

Mr. (Mrs.) Defense Attorney: What do you say to the criticism that your policies continue to provide too much of a safety net for financial institutions, given that they allow them to make risky decisions with the government on standby with bailout money?

President Fizzcal Policy: I think that has some merit. We need to continue looking at that issue.

Mr. (Mrs.) Defense Attorney: What do you say to the criticism that over the past several years both the Office of the President and Congress have been too willing to deregulate banks and other financial institutions?

President Fizzcal Policy: I think that has some merit, too. No one wants government control over business practices until problems arise. When that happens, everyone begins to point fingers. Congress writes the legislation and, perhaps with the guidance of the president, new laws are made.

Mr. (Mrs.) Defense Attorney: When did the deregulation of financial institutions begin?

President Fizzcal Policy: You could begin as far back as President Jimmy Carter, who supported eliminating the “redlining” practice banks used to exclude minorities from qualifying for loans. You could look at President Ronald Reagan, who deregulated banks so new business investment would emerge. You could look at President Bill Clinton, who allowed commercial banks to get into investment banking. Clinton actively encouraged Fannie Mae and Freddie Mac to give minorities and low-income groups access to home ownership, even if that meant subprime loans. And President George W. Bush continued efforts to increase the number of citizens owning their own homes.

Mr. (Mrs.) Defense Attorney: You’re naming both Republican and Democratic presidents, yes?

President Fizzcal Policy: That is correct, not to mention the 435 members of the House of Representatives and 100 members of the Senate representing both political parties.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mr. (Mrs.) Defense Attorney: Are those the only policymakers who made decisions affecting the defendant?

President Fizzcal Policy: No. You could leave the White House and Congress and head over to two agencies in the bureaucracy: the SEC and the Fed. The SEC changed some key banking regulations that allowed for more subprime mortgages. The Fed, under Alan Greenspan, chose not to regulate the shadow banking system that fostered the creation of bundled mortgage packages that became toxic upon high foreclosure rates.

Mr. (Mrs.) Defense Attorney: Do you think that the defendant will one day soon make wise decisions that will lead to more jobs and economic growth here and abroad?

President Fizzcal Policy: I do. I instituted another stimulus in 2009. Look again at Exhibit 6. The total amount of spending will be almost \$800 billion when it is finished. As of early 2010 about one-half has been spent—about a third on individual tax reductions and about a third on state and federal spending. The rest is in direct aid to individuals in need and tax cuts for businesses.

Mr. (Mrs.) Defense Attorney: How confident are you that your policies will help the defendant?

President Fizzcal Policy: Very confident, but Ulysses S. Economy can play tricks on policymakers.

Mr. (Mrs.) Defense Attorney: Do you think that the American people will ever be able to forgive the defendant?

President Fizzcal Policy: I do believe that one day soon consumer confidence will return. The index measuring consumer confidence as published by the Conference Board showed consumer confidence is rising. That's a start.

Mr. (Mrs.) Defense Attorney: Your honor, I now call the next witness to the stand, Mr. Ian Flated Prices.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the truth, the whole truth, and nothing but the truth?

Mr. Ian Flated Prices: I do.

Mr. (Mrs.) Defense Attorney: You seem a little more quiet than usual, not your usual hyper self. What is your involvement with the defendant?

Mr. Ian Flated Prices: You are right. I have been quiet since November 2008, despite flaring up in late 2007 and throughout 2008. Of course, most economists want me settled down in a 1–2% range.

Mr. (Mrs.) Defense Attorney: Your honor I would like to enter this Consumer Price Index data into evidence. (*Teacher displays Visual 9*)

Judge: So ordered.

Mr. (Mrs.) Defense Attorney: So Mr. Ian Flated Prices, you are supportive of the defendant?

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

Mr. Ian Flated Prices: Yes, I am.

Mr. (Mrs.) Defense Attorney: Are you concerned at all about your presence in the defendant's life given the enormous amounts of stimulus money injected into the defendant from Congress and the president, and the amazingly large amounts of bank reserves created by the Fed?

Mr. Ian Flated Prices: I'll admit that my presence can be destructive because I make currency worth less. I can make a strong dollar weak. On the positive side, if the dollar weakens, the trade deficit shrinks as U.S. exports become more affordable for foreign buyers. I cannot guarantee you that I will leave the defendant alone, but I know there are a lot of policymakers watching me closely, especially at the Fed.

Mr. (Mrs.) Defense Attorney: Your honor, I have no more questions for this witness. I call the defendant to the stand, Mr. Ulysses S. Economy.

Judge: Mr. Economy, you do realize that you can exercise your Fifth Amendment right not to testify against yourself?

Mr. Ulysses S. Economy: I understand my rights, your honor, but I want to testify in this very important trial.

Judge: Very well. Proceed.

Baliff: Raise your right hand and place your left on *The Wealth of Nations*. Do you swear to tell the

truth, the whole truth, and nothing but the truth?

Mr. Ulysses S. Economy: I will tell you the truth but I will do so slowly. The Business Cycle Dating Committee of the National Bureau of Economic Research announced that I have been in a recession since December 2007.

Mr. (Mrs.) Defense Attorney: You have been accused of some serious offenses. People have been enduring an economy from 2007 to 2009 that has not lived up to expectations.

Mr. Ulysses S. Economy: *(Interrupting the attorney and putting his hands up in the air in resignation)* Believe me, I know. Spending by business and new personal housing construction fell more than 50 percent in the first quarter of 2009.

Mr. (Mrs.) Defense Attorney: What component of GDP is growing?

Mr. Ulysses S. Economy: Government spending.

Mr. (Mrs.) Defense Attorney: And how do you expect foreign buyers to buy our exports? As Mrs. Glowbell Economies testified, the GDPs of other nations have experienced extraordinary declines. Between housing and the stock market crash, 25 percent of personal net worth was wiped out. What do you have to say for yourself?

Mr. Ulysses S. Economy: *(Looking at the jury.)* I know that you are disappointed in me but I am the victim here.

ACTIVITY 2, CONTINUED

TRIAL TRANSCRIPT: *THE PEOPLE V. ULYSSES S. ECONOMY*

I shouldn't be accused of committing the offenses; I am the one who has suffered. If you must find me guilty, please choose to rehabilitate me instead of just letting me stagnate. Provide me with sound monetary and fiscal policy tools. Tighten regulations on financial institutions but not at the expense of reducing loans for both businesses and consumers. Give businesses a reason to open up factories instead of burdening them with new costs. If you let me remain free to expand, I promise to get back on track.

Mr. (Mrs.) Defense Attorney: Your honor, the defense rests.

Judge: (*Instructions to the jury*) You have heard the evidence in the case of *The People v. Ulysses S. Economy*. On Count one of the indictment that Ulysses S. Economy has deteriorated consumer confidence, how do you find?

Spokesperson for the Jury: Guilty.

Judge: On Count two of the indictment, that Ulysses S. Economy has failed to create jobs, how do you find?

Spokesperson for the Jury: Guilty.

Judge: On Count three of the indictment, that Ulysses S. Economy has weakened GDP growth, how do you find?

Spokesperson for the Jury: Guilty.

Judge: On Count four of the indictment, that Ulysses S. Economy has worsened turmoil in the global economy, how do you find?

Spokesperson for the Jury: Guilty.

Judge: (*Looking at Ulysses S. Economy*) You have been found guilty on all counts of the indictment. Many want to lock you up and throw away the key. After all, you have destroyed the income and wealth of millions of people around the world.

I have determined your sentence. (*Pause*) I will free you and let you expand, grow again, and restore yourself as the leading economic power in the world. However, I am also likely to establish some new laws and regulations to guide you and to help prevent a recurrence of the experience we have all just gone through.

It is not just a coincidence that Adam Smith's *The Wealth of Nations* was published the same year that Thomas Jefferson authored the *Declaration of Independence*. Just remember all that you are and all that you can become is because of the American people. We are adjourned. (*Strike gavel*)

ACTIVITY 3

“BRIEF” NOTES ON WITNESSES FOR THE PROSECUTION



Mr. Mainy Street



Mrs. Risky Subprime



Mr. Wally Banker



Mr. Falling Down Jones



Mrs. Glowbell Economies

ACTIVITY 3, CONTINUED

“BRIEF” NOTES ON WITNESSES FOR THE DEFENSE



Mr. Benny Fromthefed



President Fizzcal Policy



Mr. Ian Flated Prices



Mr. Ulysses S. Economy

ACTIVITY 4A

FINANCIAL CRISIS EVENT CARDS

| | | | | |
|--|---------------------------|--|---|--|
| Easy credit and low interest rates | ARRA | Real GDP booms. Employment races ahead. The recovery is fully under way. | Interest rates begin to rise | Housing bubble breaks |
| Foreclosures increase at a record rate | Recession begins | Unemployment rate reaches 10.1% | Housing boom begins | Fed begins special monetary facilities |
| TARP | Real GDP decreases | Fed lowers federal funds rate to between zero and 0.25% | Deregulation | Recession is formally declared |
| Stock market low - Dow stops at 6,750 | Real GDP begins to expand | Fed begins to lower target federal funds rate | Stock market peak - The Dow hits a market high of almost 15,000 | Securitization expands |

ACTIVITY 4B
FINANCIAL CRISIS EVENT CHART

