

VISUAL 1

WHAT YOU WILL LEARN, HOW YOU WILL LEARN, AND THE LESSON GOAL

WHAT YOU WILL LEARN

You will be able to identify the persons, groups, and financial institutions that played a role in decisions that contributed to the financial crisis.

You will be able to explain how these persons, groups, and financial institutions were affected by the crisis.

You will be able to sequence the events that comprised the financial crisis of 2007-2009.

HOW YOU WILL LEARN

You will participate in a mock trial where witnesses such as Mr. Wally Banker and Mr. Mainy Street will be called to testify in the case of *The People v. Ulysses S. Economy*. The defendant is accused on four counts including the deterioration of consumer confidence, the failure to create jobs, the weakening of real GDP growth, and the worsening of turmoil in the global economy.

You will correctly order 20 events that occurred during 2007-2009 in correct sequence beginning with the changes in banking regulations and ending with questions and concerns beyond 2009.

THE LESSON GOAL

You will be able to understand, describe, and demonstrate knowledge of this most recent crisis.

VISUAL 2

KEY FINANCIAL TERMS

Credit default swap: A type of insurance against a security falling in value. For example, an owner of a mortgage-backed security pays a fee to an institution or investor in return for the promise of much larger payment if the mortgage-backed security defaults. The risk of default has been “swapped” to the seller of the credit default swap in return for fees.

Mortgage-backed securities: Investment firms bought many mortgages on homes and put them together in a pool. The firms sold parts of the pool of mortgages to other investors. Those parts (securities) could then be bought and sold in financial markets.

Toxic assets: An informal term describing financial assets that have an unknown value. For example, if some or many of the mortgages included in a mortgage-backed security are in foreclosure, the value of that security may be very difficult to determine. It might be described as toxic, that is, no one wants to buy or own it because no one is sure of its value.

Redlining: A practice that some mortgage companies and banks engaged in that made persons who lived in certain geographic areas less likely to qualify for loans. These areas were often largely minority areas. Mortgage companies defended the practice by saying that these mortgages were more likely to become delinquent and subject to foreclosure. The practice has been severely limited by recent laws.

VISUAL 2, CONTINUED

KEY FINANCIAL TERMS

Subprime mortgages: Mortgages that are made to individuals with low incomes, few assets, and perhaps weak credit history. The risk of default on subprime loans is greater than prime loans made to individuals with higher incomes, greater assets, and better credit histories. Some subprime loans were made with very low introductory interest rates with an expectation that the interest rates would increase.

Shadow banking system: Financial institutions, including investment banks, private equity funds, and hedge funds, that accept investments, make loans and create and sell new securities. This process of acting as an intermediary between those who wish to save and those who wish to borrow is outside the traditional banking system and subject to much less regulation.

Deregulation: Acts that eliminated many of the congressional mandates, rules and regulations under which the financial industry operated, giving the financial industry much more flexibility.

VISUAL 3

THE TRIAL OF *THE PEOPLE v. ULYSSES S. ECONOMY*



CHARACTERS IN THE COURTROOM

Judge Adam Smith
Bailiff and Jury

Prosecuting Attorney
Defense Attorney

Witnesses for the Prosecution

Mr. Mainy Street
Mrs. Risky Subprime
Mr. Wally Banker

Mr. Falling Down Jones
Mrs. Glowbell Economies

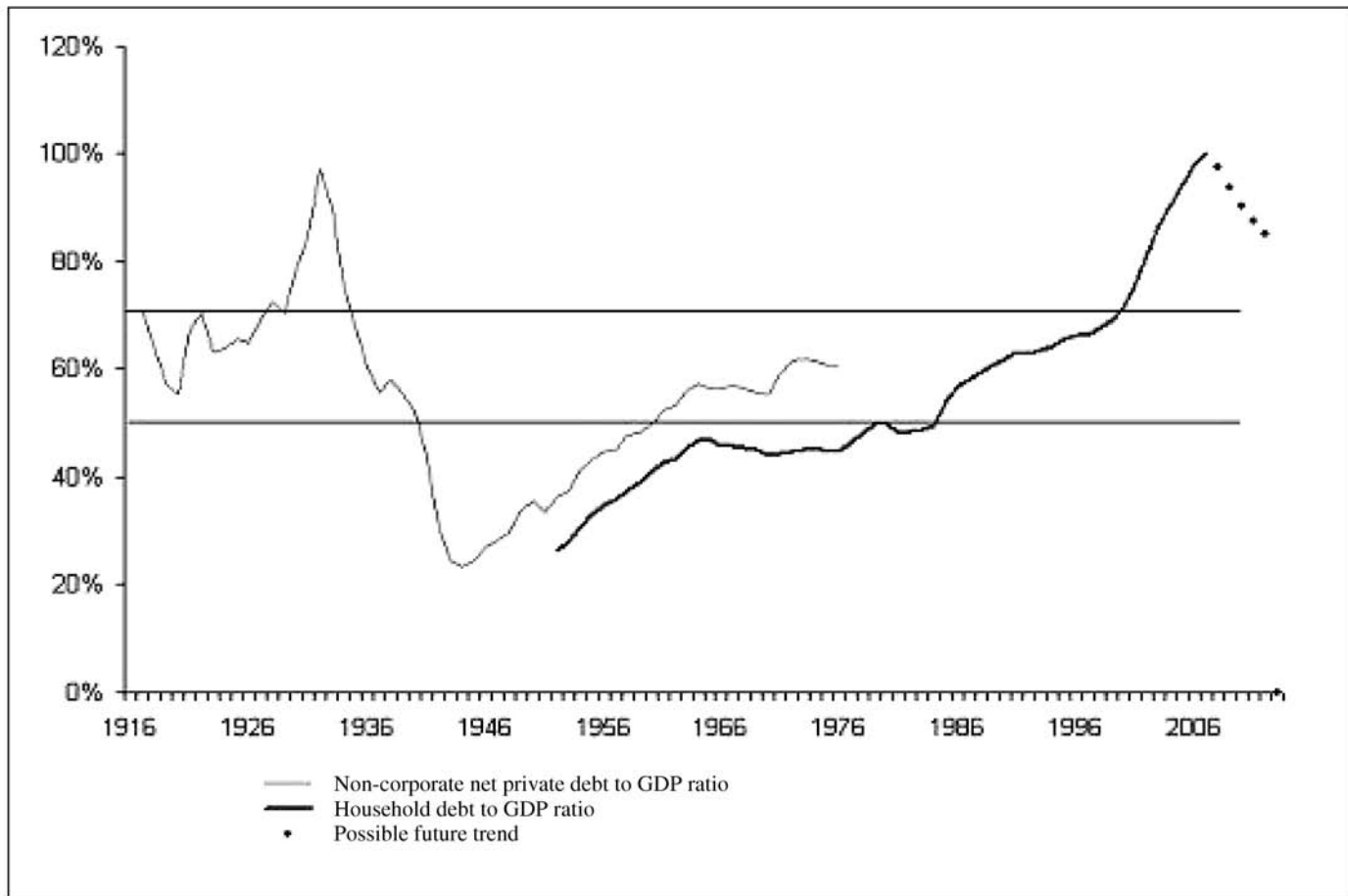
Witnesses for the Defense

Mr. Benny Fromthefed
President Fizzcal Policy

Mr. Ian Flated Prices
Ulysses S. Economy

VISUAL 4

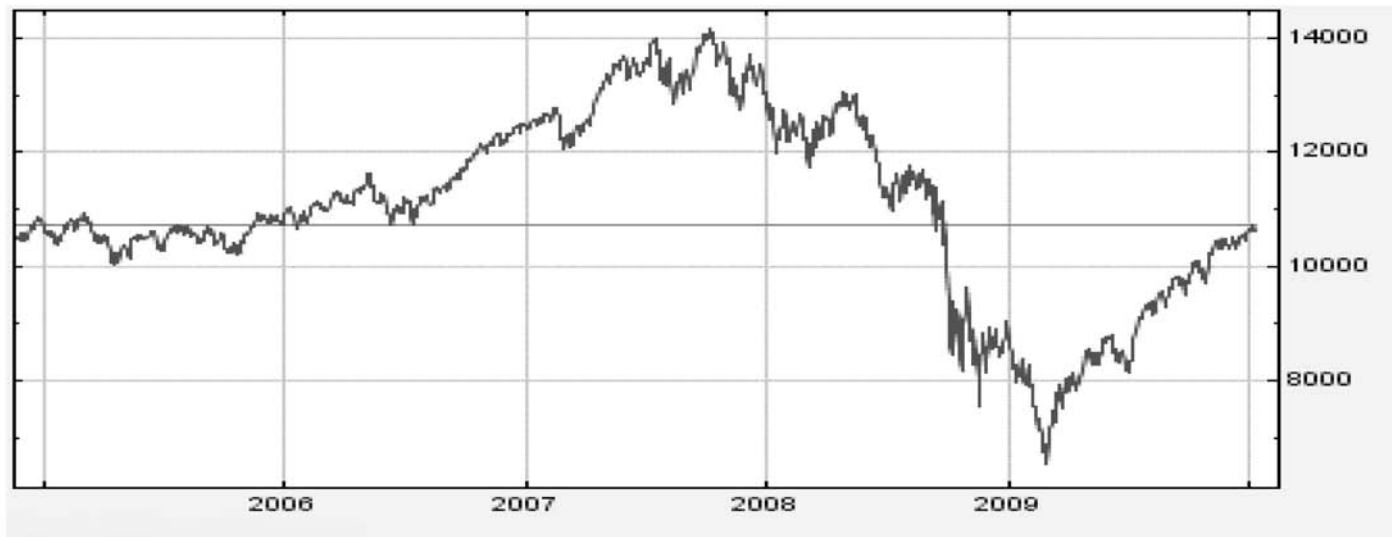
EVIDENCE—EXHIBIT #1: RATIO OF U.S. HOUSEHOLD DEBT TO GDP



Source: Credit Suisse, February 26, 2009

VISUAL 5

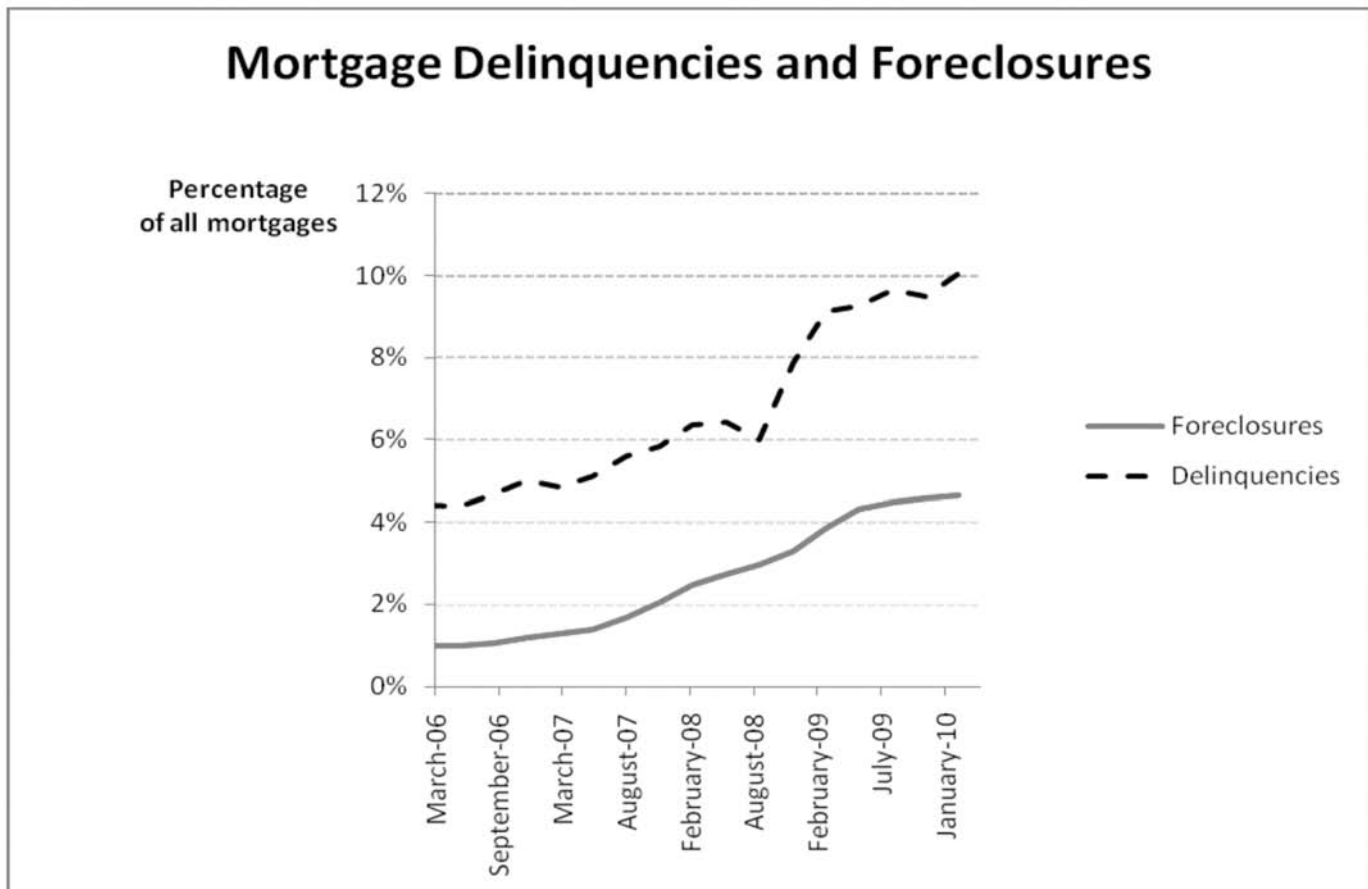
**EVIDENCE—EXHIBIT #2: DOW JONES INDUSTRIAL AVERAGE
HISTORICAL CHART**



Source: <http://www.advfn.com/p.php?pid=qkchart&symbol=DOW1%AINDU>

VISUAL 6

EVIDENCE—EXHIBIT #3: MORTGAGE DELINQUENCIES AND FORECLOSURES



Source: Historical National Delinquency Survey Data, Mortgage Bankers Association, 2010

VISUAL 7

EVIDENCE—EXHIBIT #4: GLOBAL COMPARISON OF OUTPUT, PRICES, AND JOBS

Percentage change over previous year for first three columns

Country	GDP 4 th Quarter 2009	Industrial Production	CPI	Unemployment rate (%)
United States	-2.5	-5.1	-0.3	10.0
China	+8.2	+19.2	-0.8	9.2
Euro area	-3.9	-11.1	-0.3	10.0
Estonia	-13.0	-13.7	-0.4	15.2
India	+5.5	+11.7	+9.8	9.1
Iceland	-6.3	+10.1	+12.0	8.0
Japan	-5.3	-3.9	-1.3	5.2
Latvia	-16.9	+2.4	+3.3	20.9
Lithuania	-15.0	+8.3	+4.7	11.7
Ukraine	-17.0	+8.6	+16.5	8.8

Source: *The Economist*, online edition, June 24, 2010, and World Bank, Countries Data Research, www.worldbank.org

VISUAL 8

EVIDENCE—EXHIBIT #5: MONETARY POLICY CONDUCTED BY THE FEDERAL RESERVE RESCUE EFFORTS

Program	Amount at maximum
Central Bank Liquidity Swaps	\$582 billion
Term Auction Facility	\$493 billion
Commercial Paper Funding Facility	\$349 billion
Term Securities Lending Facility	\$45 billion
Total	\$1,500 billion
Total Aid to Specific Institutions	\$120 billion
<p>Total Assets of Federal Reserve increased from \$900 billion in the fall of 2008 to almost \$2,500 billion in 2010.</p>	

Source: Federal Reserve System

VISUAL 9

EVIDENCE—EXHIBIT #6: FISCAL POLICY (CONGRESS AND THE PRESIDENT) RESCUE EFFORTS

Program	Authorized	Net spent to date
Troubled Asset Relief Program, 2008		
Total	\$700 billion	\$344 billion
Purchase of Preferred Shares of More Than 700 Financial Companies	\$205 billion	\$75 billion
Additional Assistance to Citigroup and Bank of America	\$45 billion	\$0 billion
AIG (American Insurance Group)	\$70 billion	\$70 billion
Automotive Company Assistance	\$85 billion	\$82 billion
Other	\$294 billion	\$118 billion
American Recovery and Reinvestment Act, 2009		
Total	\$787 billion	\$373 billion
Individual Tax Reductions		\$127 billion
State Fiscal Relief		\$76 billion
Direct Aid to Individuals		\$75 billion
Government Spending		\$55 billion
Business Tax Reductions		\$41 billion

Source: Federal Reserve, Treasury, FDIC, CBO, White House
 Note: Figures as of March 2010

VISUAL 10

EVIDENCE—EXHIBIT #7: CONSUMER PRICE INDEX (MEASURES INFLATION)



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2007	2.1	2.4	2.8	2.6	2.7	2.7	2.4	2.0	2.8	3.5	4.3	4.1	2.8
2008	4.3	4.0	4.0	3.9	4.2	5.0	5.6	5.4	4.9	3.7	1.1	0.1	3.8
2009	0.0	0.2	-0.4	-0.7	-1.3	-1.4	-2.1	-1.5	-1.3	-0.2	1.8	2.7	-0.4
2010	2.6	2.1	2.3	2.2	2.0								

Source: U.S. Bureau of Labor Statistics, June, 2010

VISUAL 11

ANSWER KEY TO FINANCIAL CRISIS EVENT CHART

