Macroeconomics: The Big Picture
I) What is Macroeconomics?
   A) Looks at how economic issues affect the entire economy.

II) What caused the Great Recession?
   B) “Annie” bought a home…Oops!

1- Ali Velshi, CNN business analyst video
Macroeconomics: The Big Picture

III) How home mortgages led us into recession

A) Types of mortgages:
   1- fixed rate
   2- adjustable rate
   3- interest only payments
   4- balloon payments
   5- no down, no qualify
   6- liar loans

B) Foreclosures and Bank losses
   1- As supply of foreclosed homes ↑, home values ↓
   2- Many homeowners now “underwater” w/↑ payments
   3- Homeowners lose incentive to try and keep their homes
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C) Construction unemployment increases:

*The Ripple Effect*
1- New home sales drop
2- Sales ↓ of appliances, carpets, drapes, furniture.
3- Banks distrust companies and consumers: loans dry up.
4- Unemployment ↑ across the economy.
   a- average monthly job loss: −700,000
   b- total recession job losses: −8 million
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C) Construction unemployment increases: *The Ripple Effect*

D) Mortgages to Bonds: CDO’s (collateralized debt obligations)

1- Mortgages packaged into bonds and sold in the secondary markets.

2- Three ratings companies reviewed and rated high risk mortgage bonds as AAA+!!!

3- Investors were misled, including global investors.
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E) Too big to Fail!

1- AIG: the largest company ever to file bankruptcy.

2- Credit default swaps: It’s really insurance…but not.
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E) Too big to Fail!
1- AIG: the largest company ever to file bankruptcy.
2- Credit default swaps: It’s really insurance…but not.
   a- Insured companies against losses on mortgage investments, i.e., defaults on mortgages.
   b- If classified as insurance, AIG would need to set aside more cash to handle losses of the companies it insured.
3- If AIG allowed to fail, banks and other firms would also fail:
   a- firms incurred millions $ losses on mtg. bonds.
   b- all major banks would have gone out of business (Bank of America, Chase, CitiBank, Bank of the West, etc.)

F) The Bank Bailout
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F) The Bank Bailout
1- Bush and Congress passed $787 billion bailout package.
2- Was it necessary? Did it help?
   YES! It probably kept us out of Great Depression II
3- Why is it despised?
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   a- Rich, powerful received federal $,
       average guy did not.

   b- Within months of bailout, bank/financial
       executives gave themselves multi-million dollar bonuses.

   c- Average guy got laid off…for a long time!