



Economic policy

The objectives of the economic policy

The types of economic policy



- ✓ **By industry**
- ✓ **Functionally-oriented division (fiscal, monetary, structural)**

Elements/measures of economic policy

- ✓ **Administrative (legal infrastructure)**
- ✓ **Economic**
- ✓ **Institutional (institutions: authorities, state property, business and trade unions)**

Economic elements:

- ✓ **Monetary policy (monetary)**
- ✓ **Budget**
- ✓ **Tax (fiscal)**
- ✓ **Investment**
- ✓ **Foreign trade**

Economic elements:

Monetary policy (monetary)

Budget

Tax (fiscal)

Investment

Foreign trade

Methods=concepts:

OPERATIONS ON THE OPEN MARKET

**CHEAP MONEY POLICY (looser
monetary policy)**

TIGHT MONEY POLICY

Monetary policy

Impact on the quantity of money in circulation

Price stabilization

Employment

The growth of real output

Exchange rate

- ✓ Stimulating measures of the Central Bank to increase money supply
- ✓ The economic policy of restraining

64. Types and tools of Monetary economic policy and their impact on the forms of international economic relations (open SCHEME)

- *The norm of reserve requirements*
- *Central bank rate*
- *Buy/sell of government securities by Central Bank*

Economic elements:

Monetary policy (monetary)

Budget

Tax (fiscal)

Investment

Foreign trade

Fiscal policy

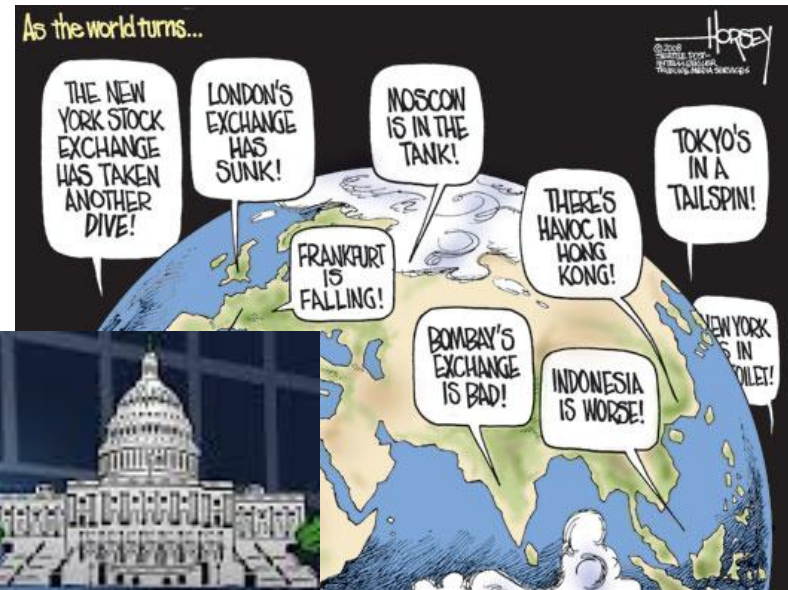
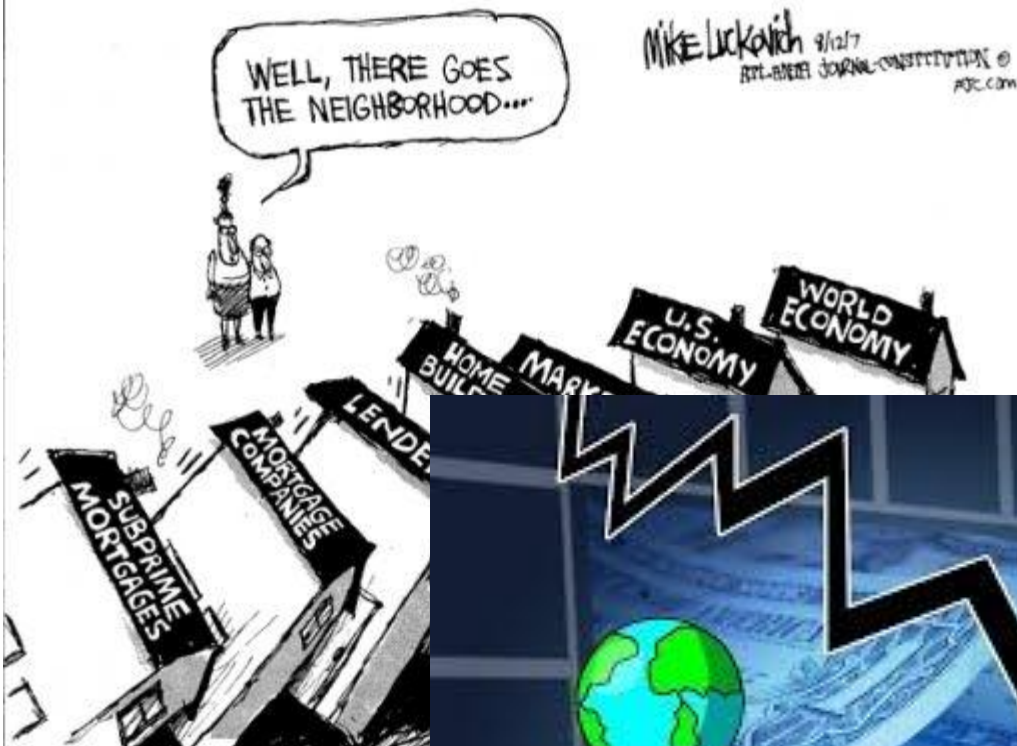
✓ **Stimulating**

✓ **The economic policy of restraining**

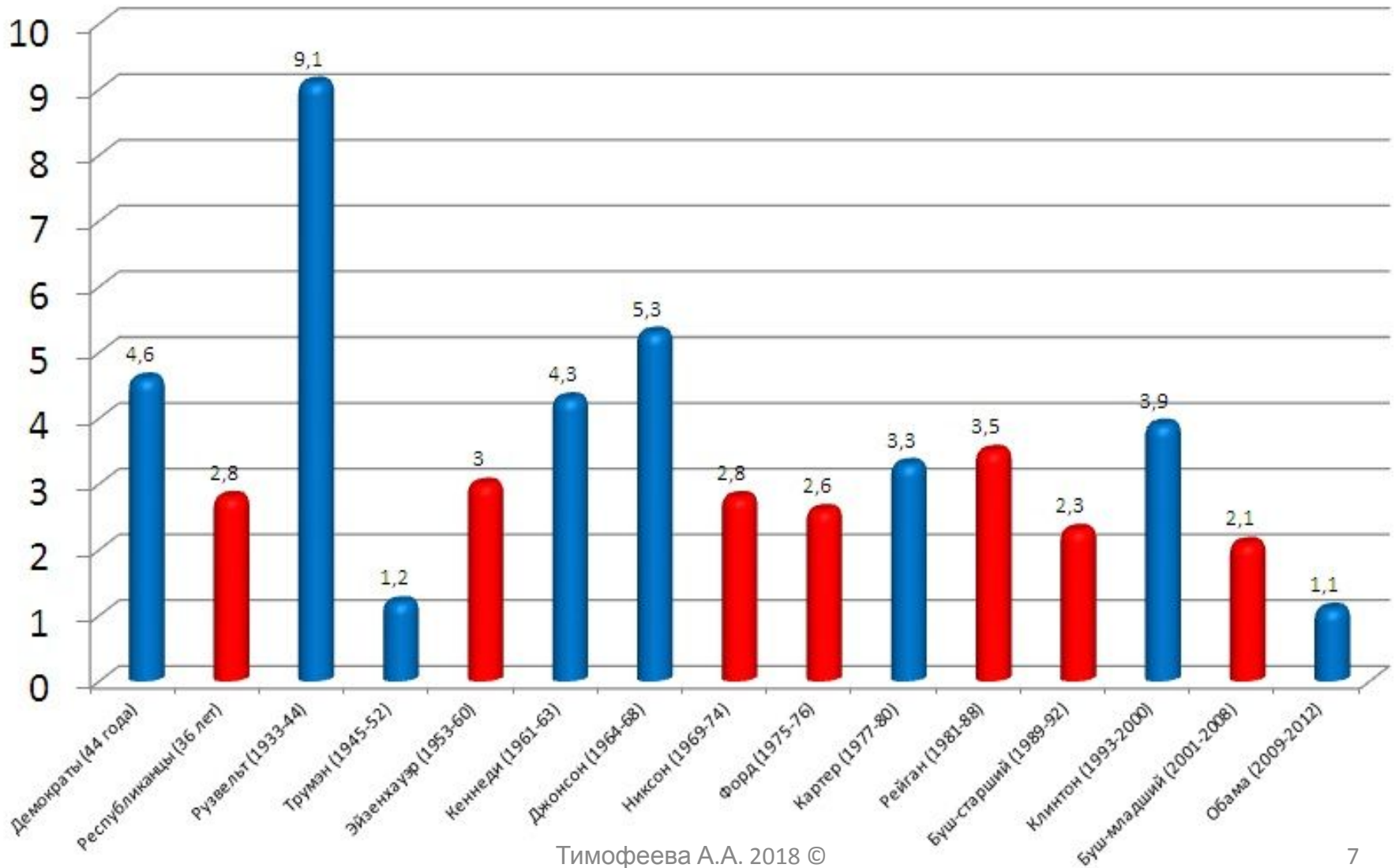
65. Types and tools of Fiscal economic policy and their impact on the forms of international economic relations (open SCHEME)



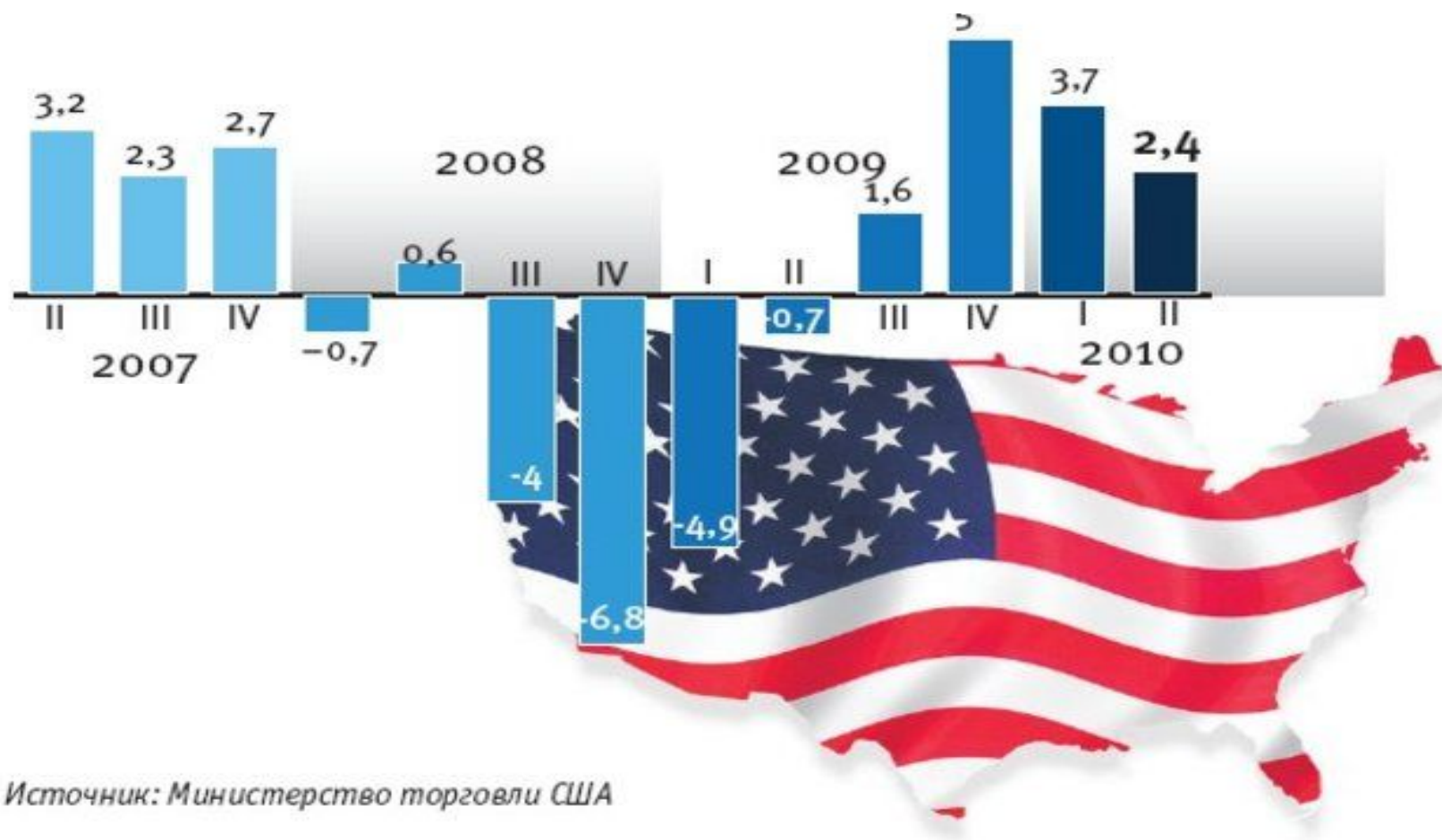
***Government Purchases
Taxes
Transfers***



The growth rate of U.S. GDP (1933-2012)



Mortgage crisis



Источник: Министерство торговли США

Global recession 2009

Financial crisis or mortgage crisis of USA 2007-2008

- ✓ Mortgage loans with a high degree of risk
 - Before 2006 - 8%
 - After – 20%
 - Loans with a floating rate - 90%
- ✓ **standard lending is reduced**
- ✓ The share of liabilities in disposable income
 - 1974 - 60%
 - 1990 – 90%
 - 2007 – 127%



✓ *Standard lending is reduced*

Subprime mortgage credit

Reduction of influence of the enterprises with state participation

Freddie Mac =

Federal Home Loan Mortgage Corporation

Fannie Mae =

Federal National Mortgage Association

and improving the position of private lenders



Lightweight credit

Easier to get

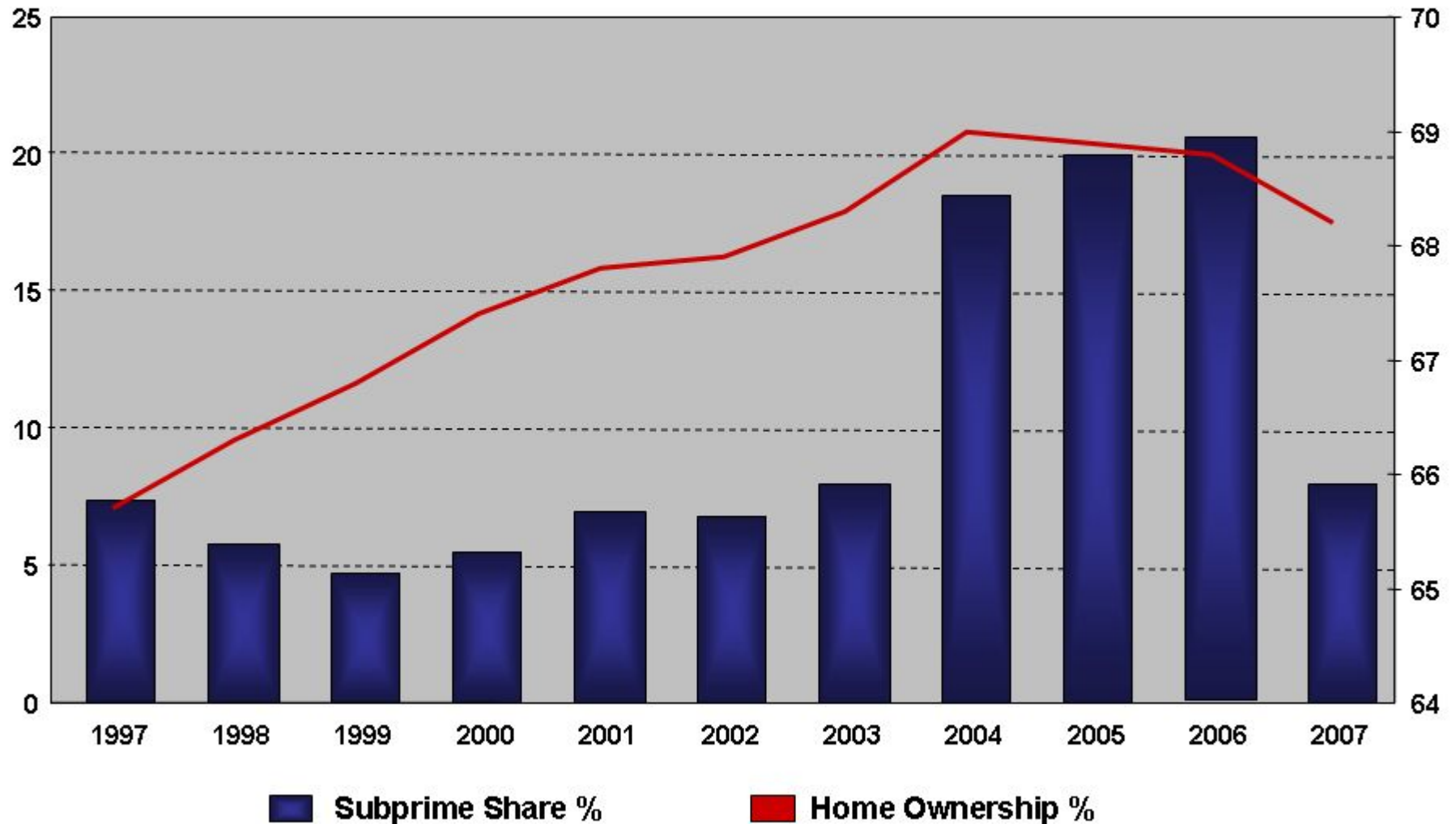
Higher %

Unfavorable additional terms

U.S. Subprime Lending Expanded Significantly 2004-2006

**Subprime
Share of Mortgage
Originations (%)**

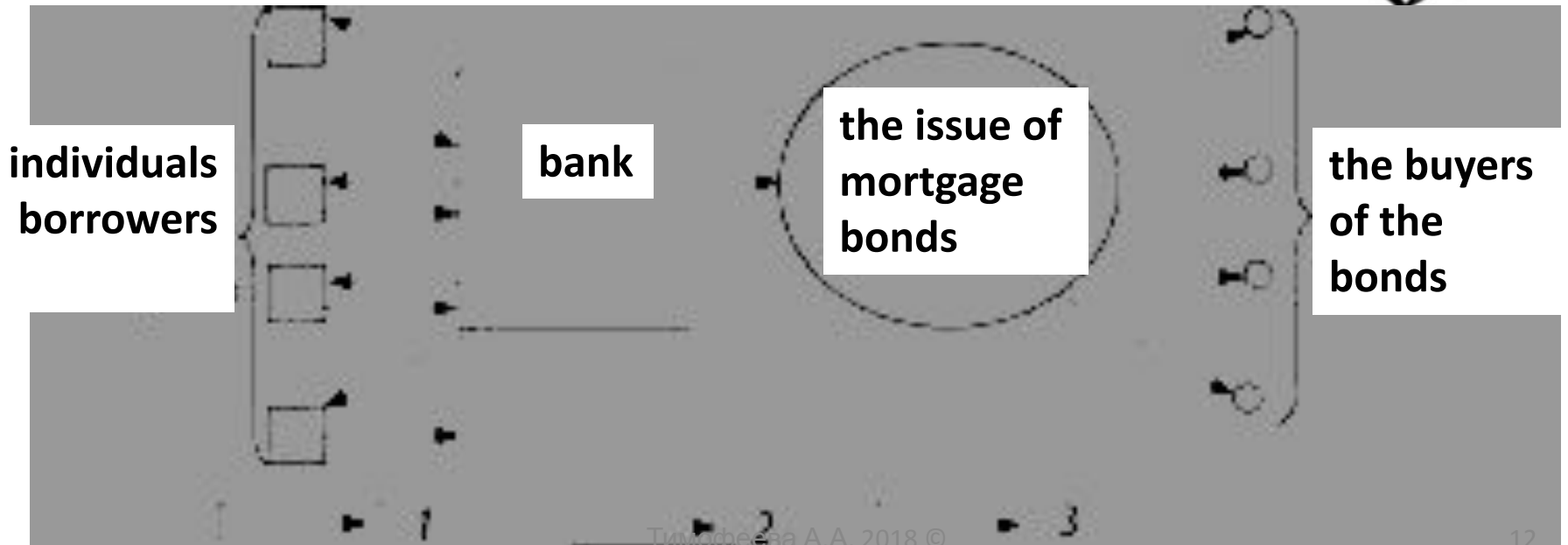
**Home
Ownership
Rate (%)**

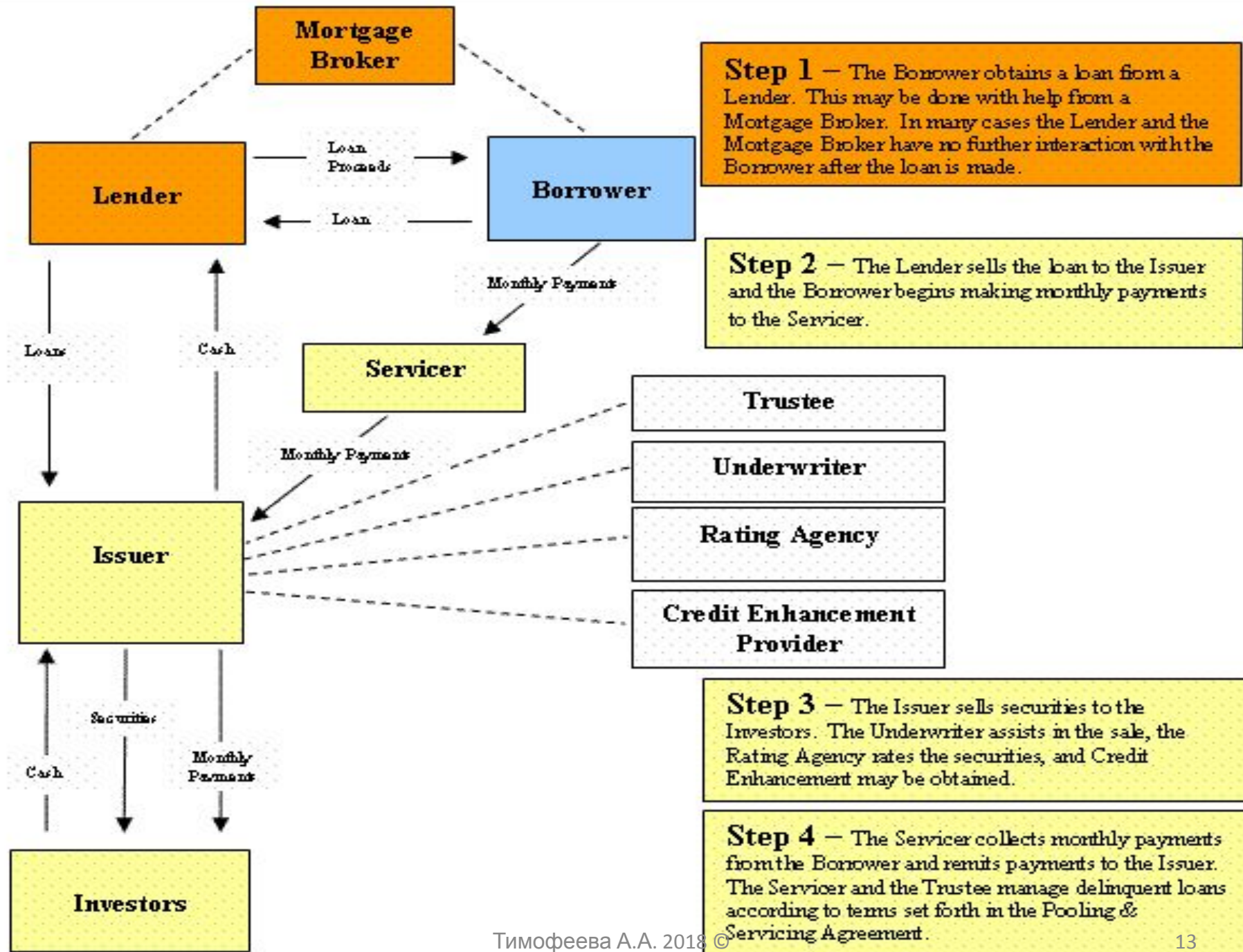


"Securitization of a mortgage loan of a very high risk was made by private investment banks"

Securitization

66. Securitization as reason for 2008 crises (HEME AND WHY)

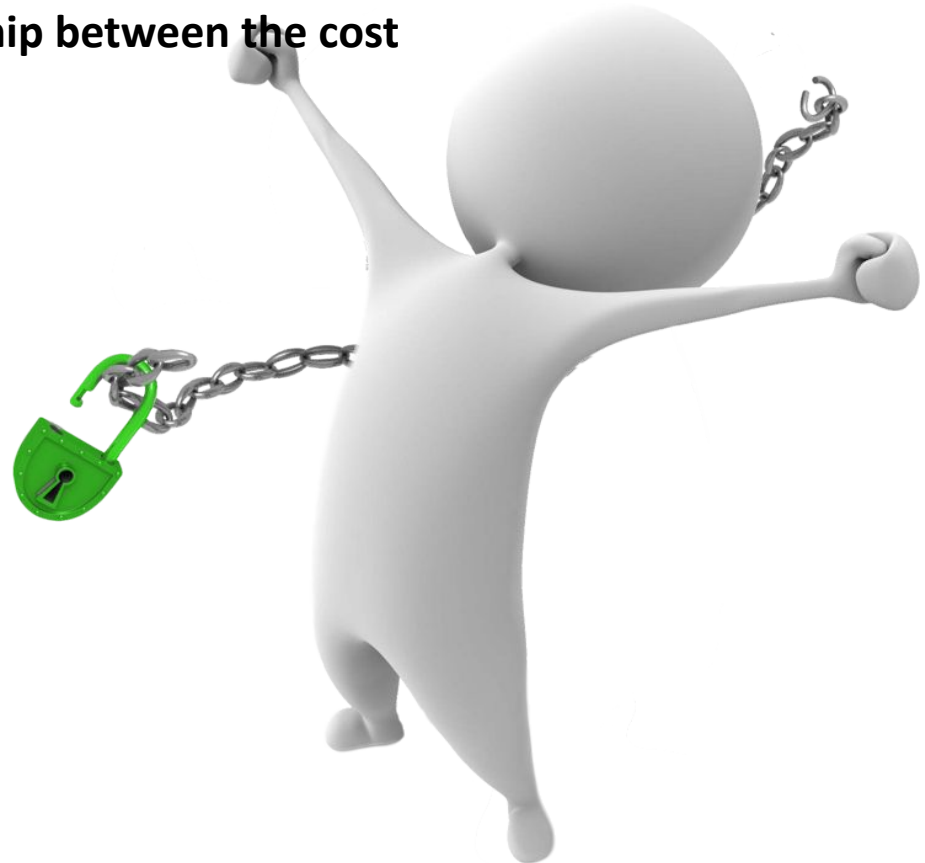




+ of securitization of mortgage loans

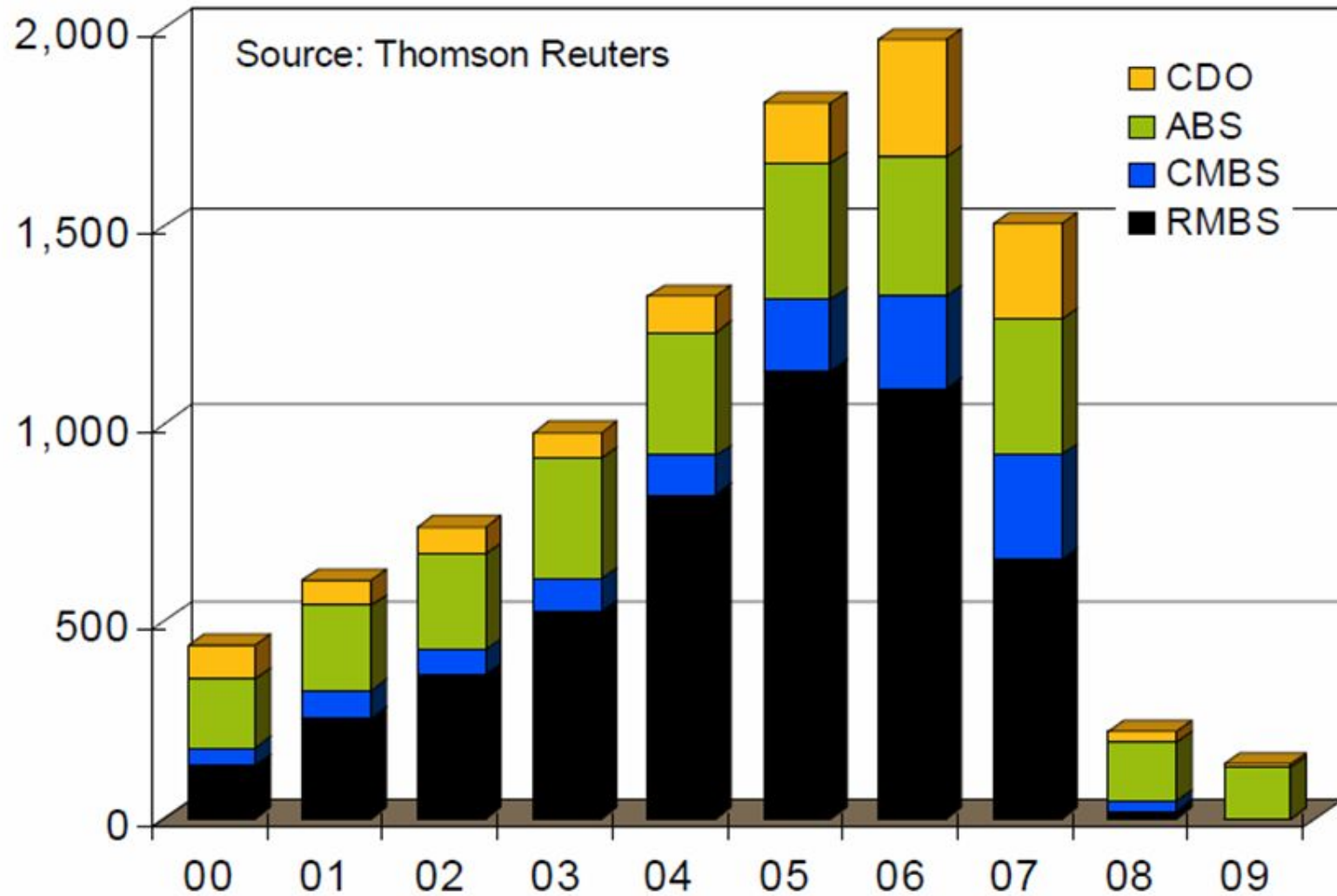
- 1. Improve the structure of Bank's balance sheet**
- 2. Additional financial resources from the sale of receivables;**
- 3. Eliminating the direct relationship between the cost of deposits and loans;**

- of securitization



Securitization Market Activity

\$Billions



2006-2007

Rise in %
Falling prices for residential property

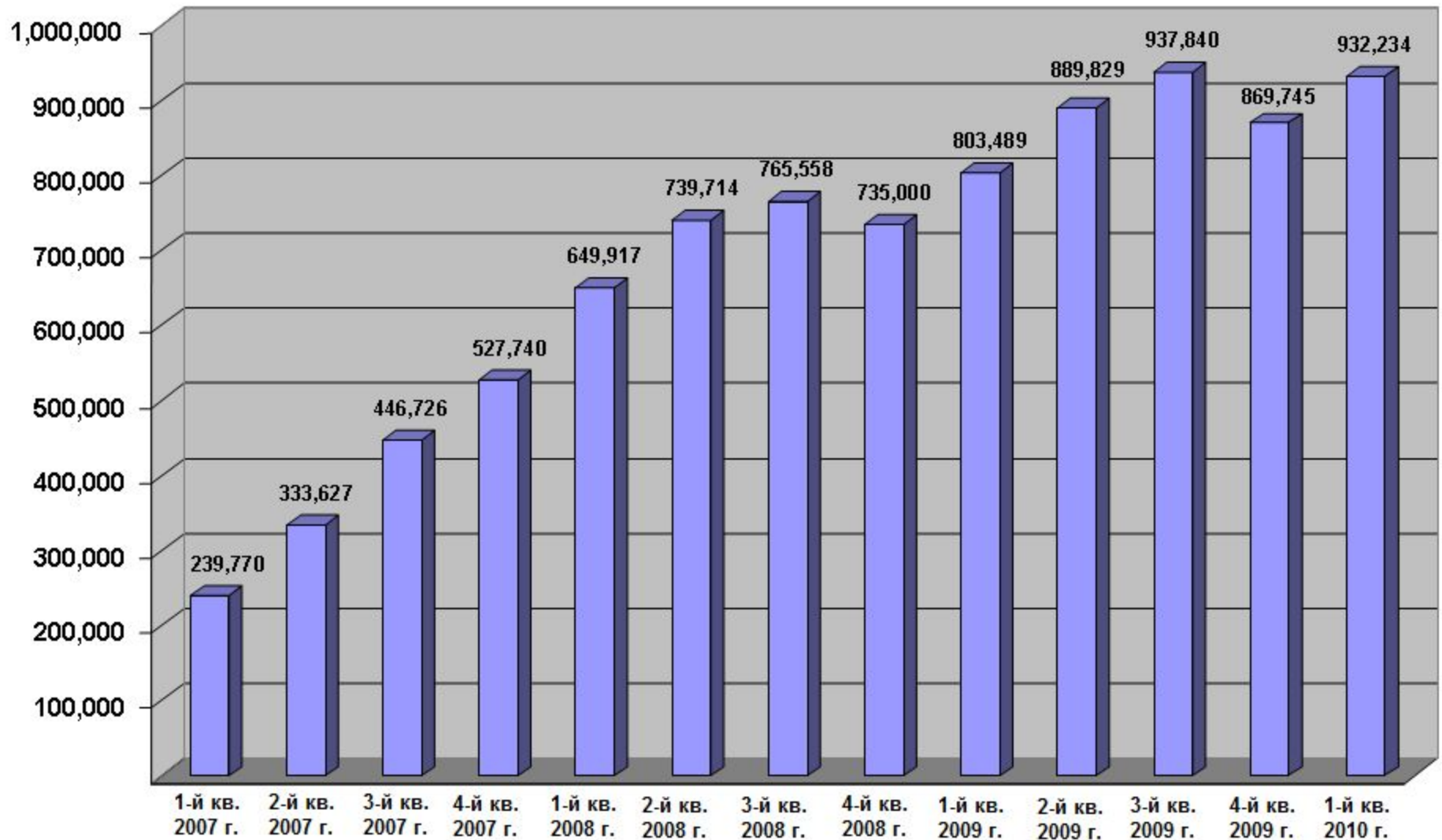
Refinancing

67. Why refinancing was unreal?



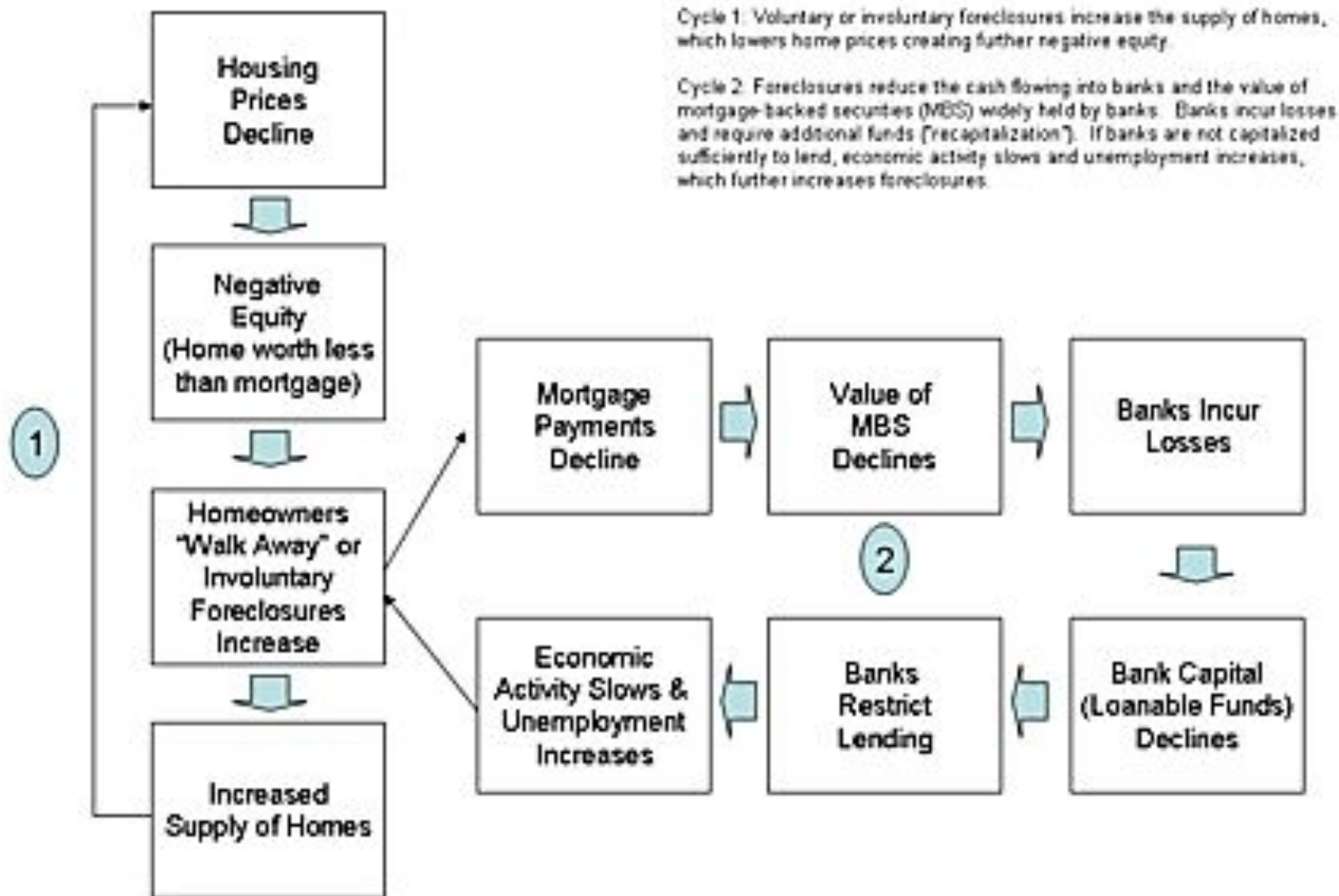
September 2007 – 23% of residential real estate is cheaper than the amount of payments on your mortgage => refusal of payment => alienation => the fall of banking system stability

The number of disposed houses in the U.S.



Источник: пресс-релизы сайта «РеалтиТрек» (RealtyTrac) «О положении рынка отчуждаемой недвижимости в США»
Тимофеева А.А. 2018 ©

Subprime Mortgage Crisis: "Vicious Cycles" of Foreclosure and Bank Instability



Why did availability of credit increase?

Foreign investment in the U.S. + cheap credit =>

the growth of credit market =>

the growth of the real estate market =>

investments of investors from all over the world in mortgage-backed securities

From 1997 to 2006 - rising cost of
real estate at 124%

Economic cycle!



Some of the factors that contributed to the development of the crisis:

- 1. Sub-Prime lending;**
- 2. Securitization of mortgage-backed securities;**
- 3. The impossibility of refinancing;**
- 4. The stage of "saturation" of the economic cycle**

The impact of the crisis on the U.S. economy 2007

By the beginning of 2008, the stock index S&P has fallen by 45%

Prices for residential property fell by 20%

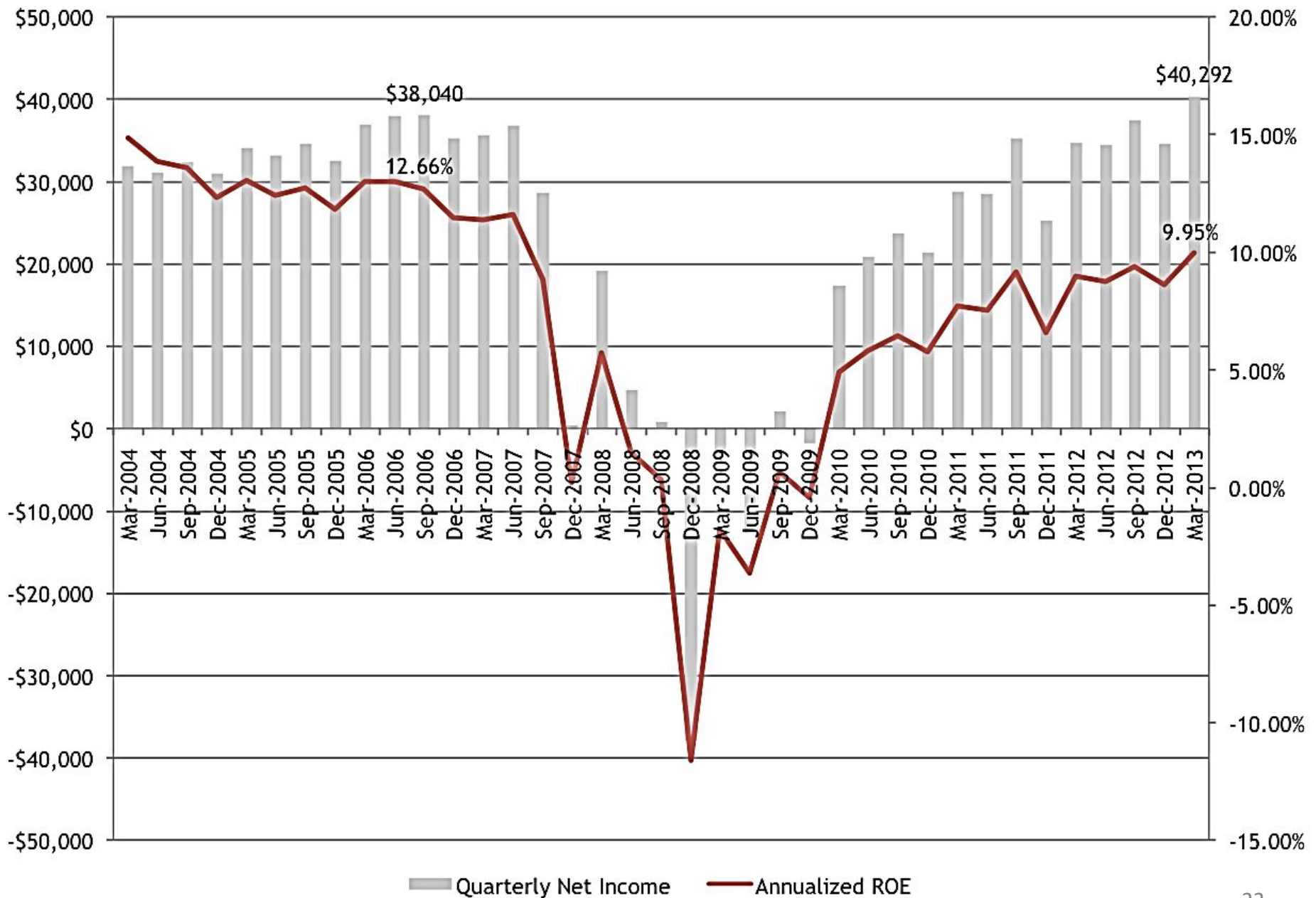
The total loss - 8.3 trillion\$

The increase in the number of homeless is 9% (to 1.6 million)

HSBC (Hongkong and Shanghai Banking Corporation) withdraws the papers equal to 10.5 billion\$, ceases to issue the loans



Banking System Quarterly Net Income vs. ROE



2007:

about 100 companies associated with the mortgage stop operations=>

the panic in the financial markets =>

reset mortgage of shares, bonds =>

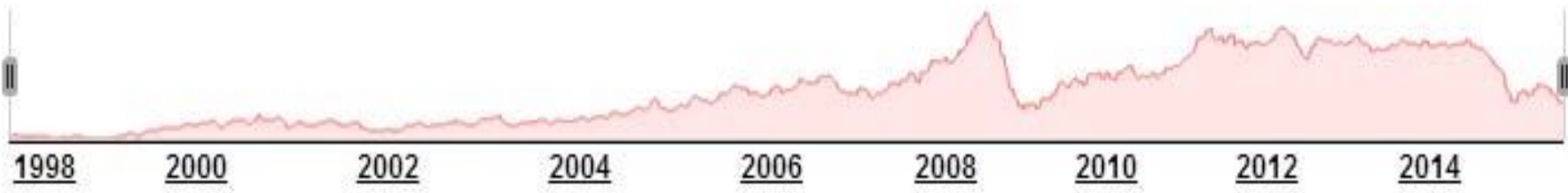
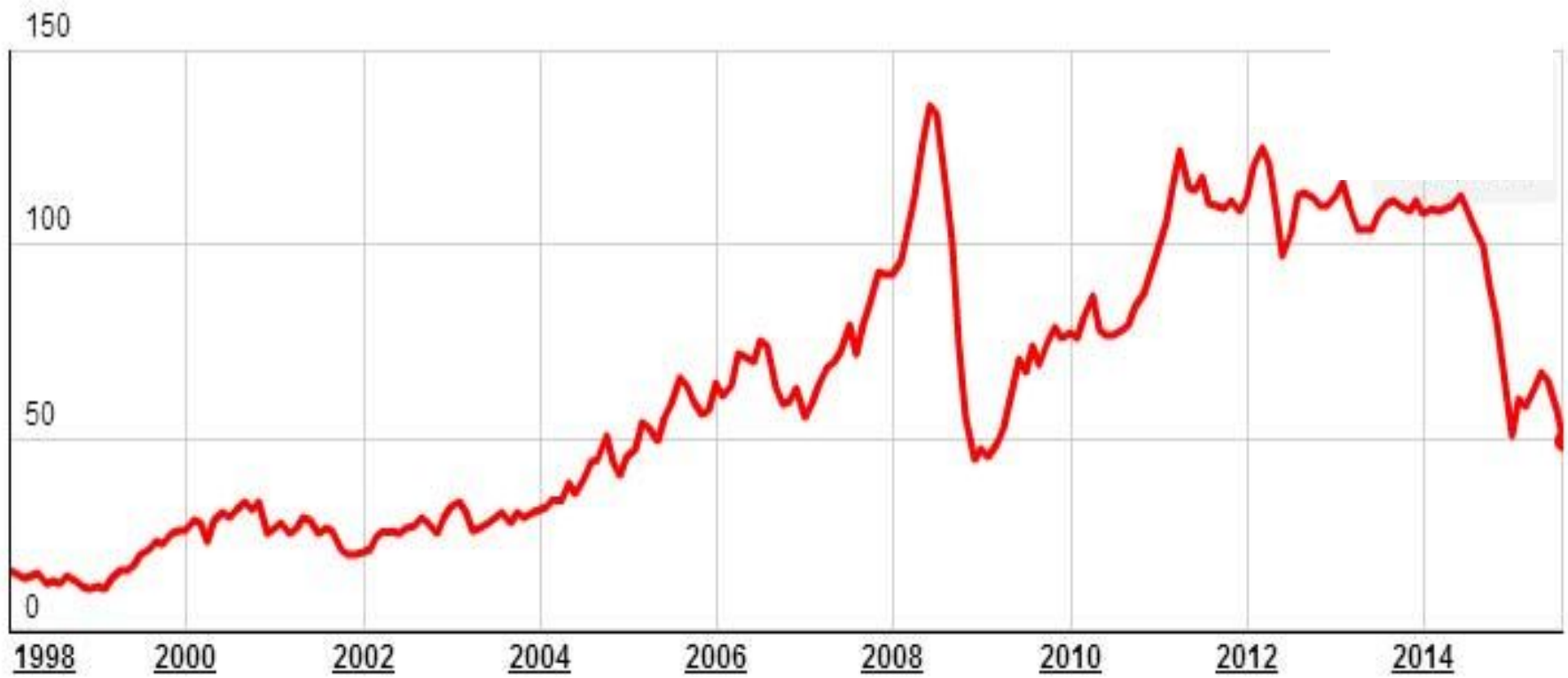
the search for other means of holding money =>

the commodity supercycle =>

the rise in oil prices

the world food crisis

The dynamics of oil prices Brent (ICE.Brent), USD/баррель



The world food crisis of 2007-2008

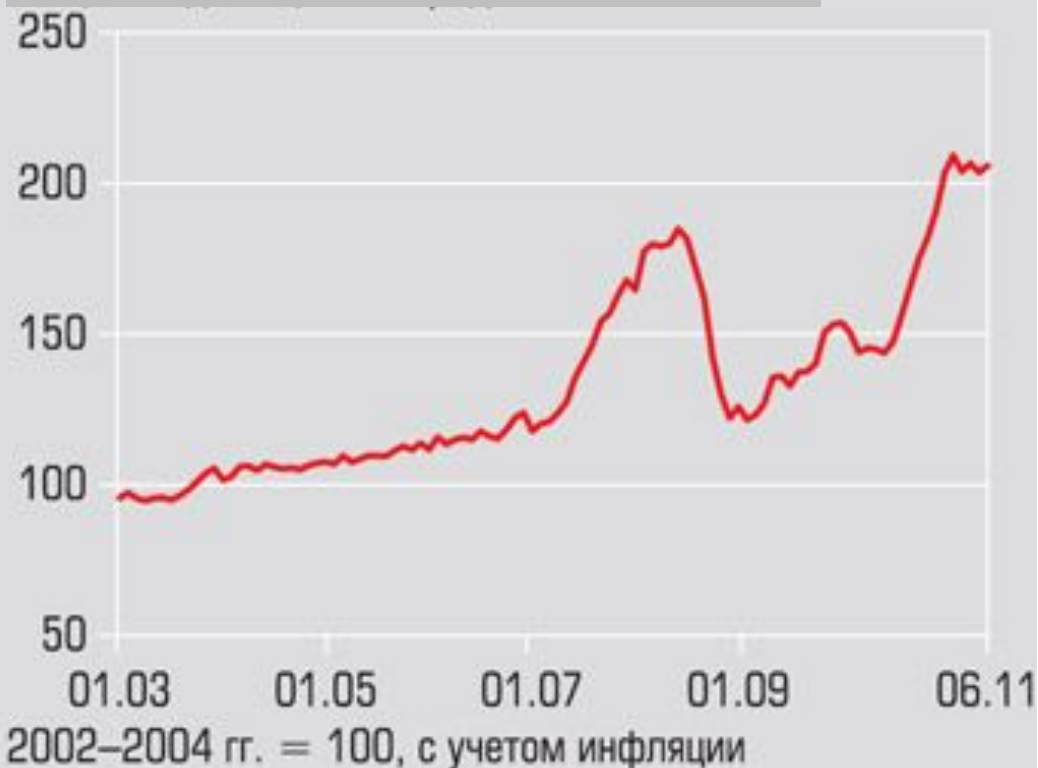
⇒ instability, social unrest

The initial reason is the drought in grain-producing countries, increase in population

The cost of grain in the finished bread in the EU – 1-5%

Dynamics of world food prices

the overall index of food prices FAO



Источник: данные автора

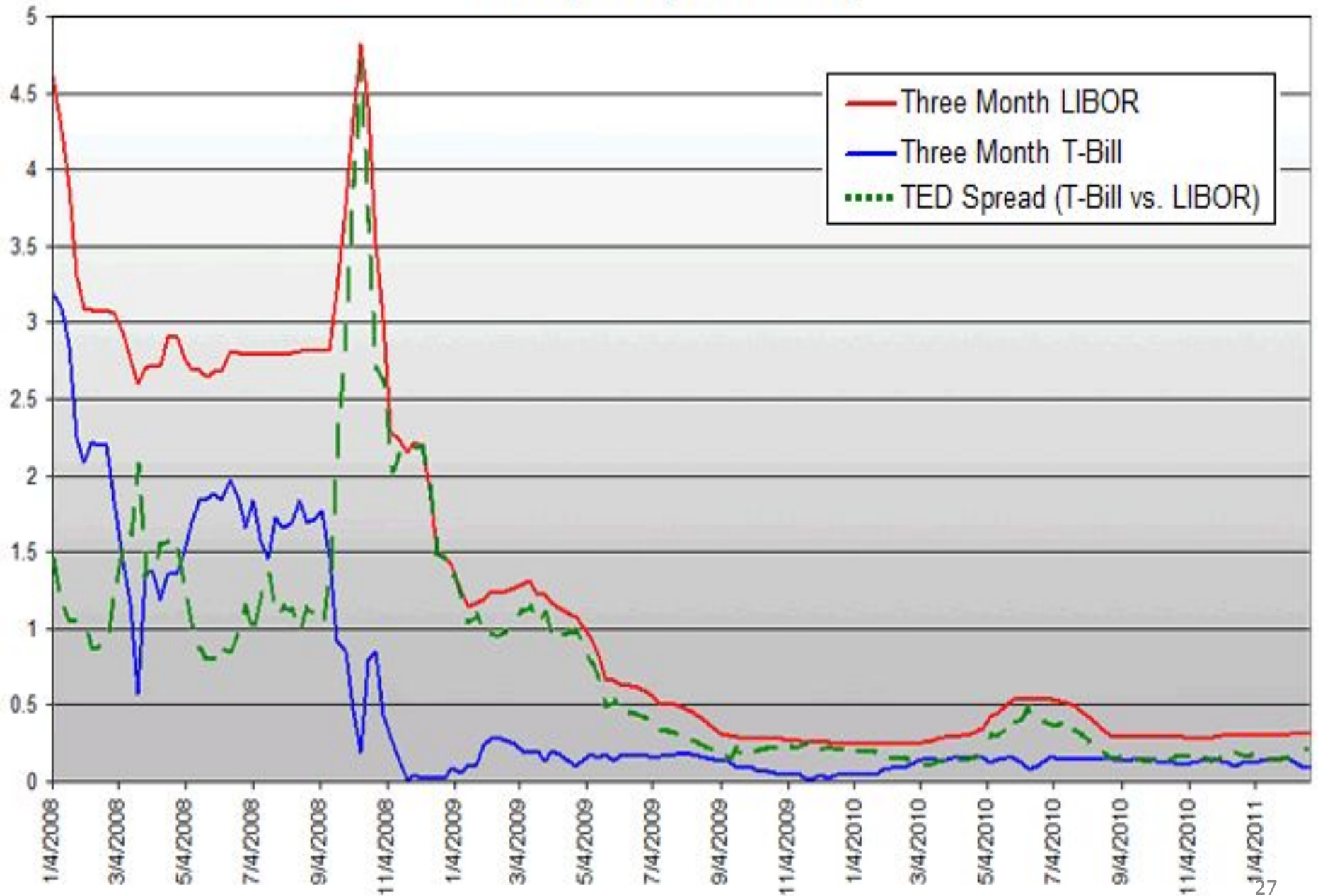
The impact of the crisis on the US economy 2008

The key is bankruptcy of Lehman Brothers Holdings,

TED spread increased by 4 times
Treasuries over Eurodollars spread



TED Spread (2008 - 2011)



Цена 8 фр.

СОВРЕМЕННАЯ БИБЛИОТЕКА

СОЧИНЕНИЯ

Н. ЧЕРНЫШЕВСКАГО

ПЕРВОЕ ПОЛНОЕ ИЗДАНИЕ

ЧТО ДѢЛАТЬ?

ИЗДАНИЕ М. ЭЛМЕДИНА И Ко

VEVEY

B. BENDA, LIBRAIRE-ÉDITEUR

Successeur de Richard LESSER

1867

Тимофеева А.А. 2018 ©

Prix: 8 Francs

QUE FAIRE ? Roman russe, par Tchernychevsky

WAS THUN ? Russischer Roman von Tschernychevsky

- **The fed buys toxic assets and government debt in the amount of \$2.5 trillion + buying specially issued preferred shares in the amount of 1.5 trillion \$
THE LARGEST OPERATION OF MONETARY POLICY IN HISTORY!**
- **Reduction of % for the Federal funds from 5.25% to 2% (9.07-4.08), 0.25% (12.08)**
- **Refund of paid property tax in the amount of 168 billion \$;**
- **The increase in the size of state spending to 787 billion \$;**
- **Plan to ensure the availability and stability of homeownership, with 73 billion\$**
- **[Summary table of emergency financing](http://money.cnn.com/news/storysupplement/economy/bailouttracker/index.html)
<http://money.cnn.com/news/storysupplement/economy/bailouttracker/index.html>**



Price

Fannie Mae Paradigam Price Shift



Current tool: Vertical Line

01/01/2012 Open \$0.205 High \$0.255 Low \$0.1951 Close \$0.23



2007 high = \$70.57
2012 = \$0.23

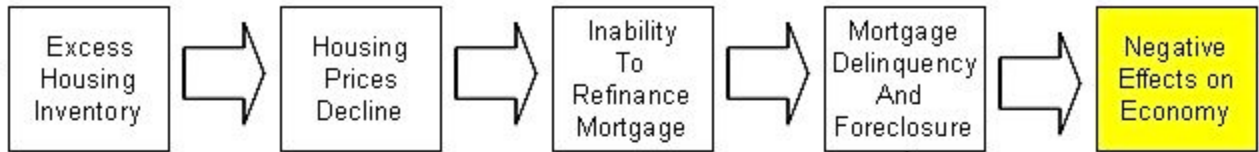


chart courtesy of Thomas Reuters

Subprime Mortgage Crisis – Diagram 2 of 2

Causes of Housing Bubble - See Diagram 1 of 2

Housing Market

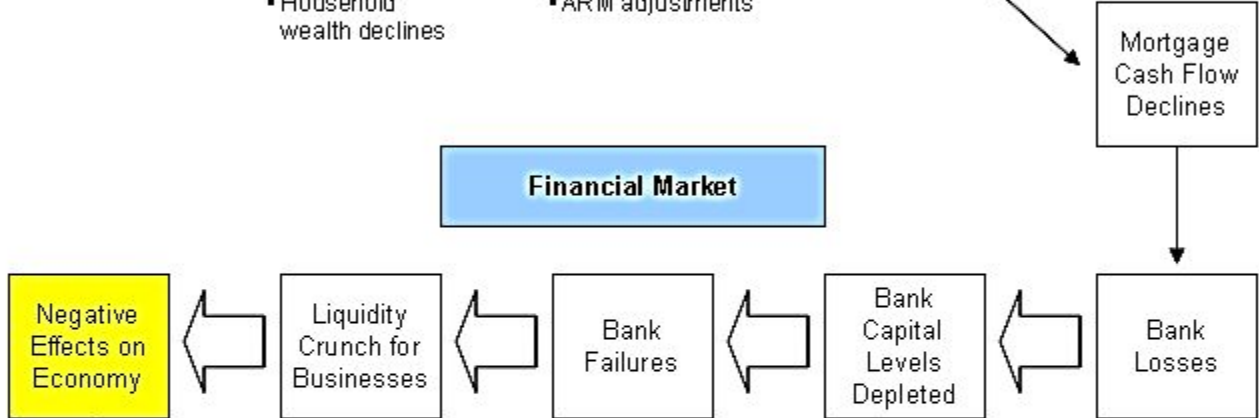


- Housing bubble bursts
- Household wealth declines

- Poor lending & borrowing decisions
- ARM adjustments

- Home building declines
- Downward pressure on consumption as household wealth declines

Financial Market



- Harder to get loans
- Higher interest rates for loans

- Washington Mutual
- Wachovia
- Lehman Brothers

- Loss on mortgages retained
- Loss on mortgage-backed securities (MBS)
- High bank debt levels ("leverage")

- Downward pressure on business investment
- Risk of increasing unemployment
- Stock market declines further reduce household wealth

Government & Industry Responses



- Lower interest rates
- Increased lending

- Economic Stimulus Act of 2008

- Hope Now Alliance
- Housing & Economic Recovery Act of 2008

- Fannie & Freddie
- Bear Stearns
- Northern Rock
- AIG

- Emergency Economic Stabilization Act (\$700B Bailout)
- Bank recapitalizations globally

Adjustment of forecasts of GDP growth under the impact of the crisis 2008



Источник: Global Insight, EIU, Oxford Economics, МЭР, Bloomberg, FinAm