

# Financial Crisis

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November 12, 2012

# Financial Panics and the Real Economy

- Why did we worry about saving the financial companies?
- The financial sector is not huge, we don't care nearly as much if airline or automobile companies go under
- The reason is that all sectors rely on the financial sector
- If I am a firm, I need to pay my workers, If I don't have the cash I have to get a short term loan. Without the financial sector I can't operate
- The fear in 2008 was that the crisis in the financial sector would spread to the real economy as credit froze up
- Before we go into the government's actions in 2008 and 2009 let's go back to the Great Depression, because it is the last time we had a financial crisis on this magnitude

# The Great Depression

- In the 1920s, times were good stock prices were climbing and people were making tons of money
- In September and October of 1929 stock prices fell by almost 50%
- Now you may be thinking, sure we all know that the stock market crashed caused the Great Depression
- But what is the impact on the real economy? Everyone who owned stocks lost wealth, but that didn't affect our ability to produce or that people still needed to eat
- The belief at the time was, hey that sucks for those guys but the economy will bounce back on its own
- The real problems came when the financial sector started to fail