

2007 - 09 Financial Crisis

Intermediate Macroeconomics - UCLA - Econ 102

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Section 1

Timetable

Video of Ben Bernanke - July 18, 2007

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# [1] "Link to the video:"  
# [1] "https://www.youtube.com/embed/JePeS30PTqo"  
# [1] "https://fgeerolf.com/econ102/handouts/financial-crisis.html"
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Ben Bernanke - July 18, 2007

- 4.4% annual first 5 months. (food and energy)
- This led the Fed to leave
- Worried about inflation

Ben Bernanke - Oct 7, 2008

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# [1] "Link to the video:"
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Federal Reserve's 2006 Jokes

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# [1] "Link to the video:"
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# [1] "https://fgeerolf.com/econ102/handouts/financial-crisis.html"
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Section 2

Underlying cause: Savings glut problem

Inequality Problems (Eisman)

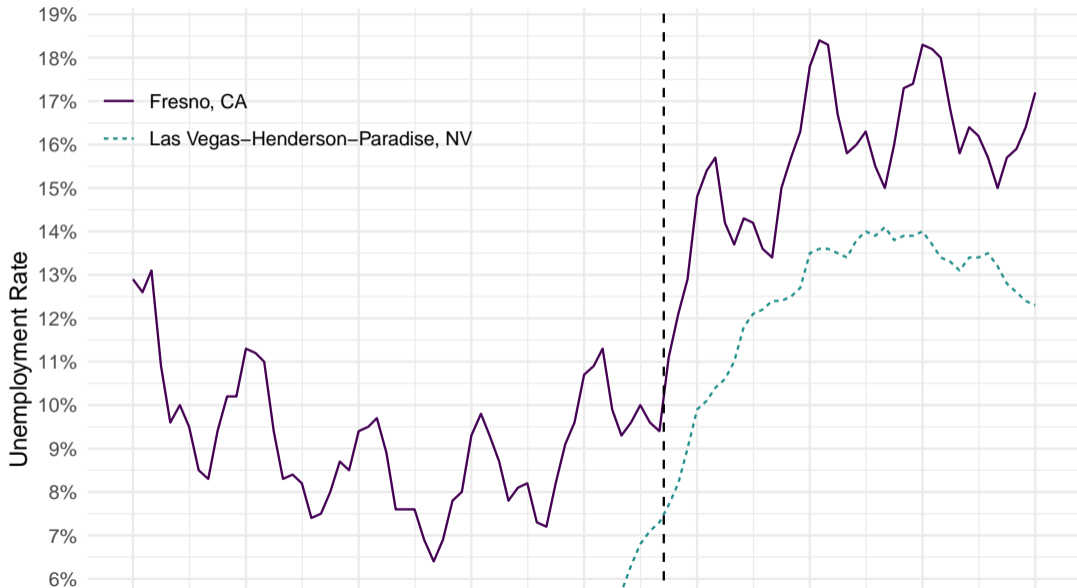
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Section 3

Monetary policy ?

Unemployment

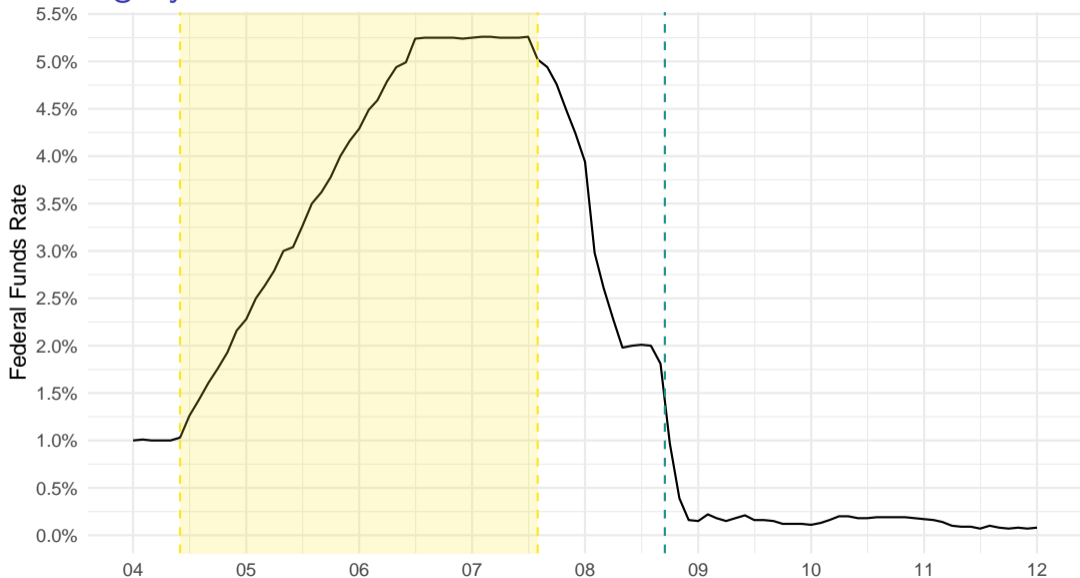


Important Dates

Two Important dates:

- ① Start of the hiking cycle in **June 2004**, from 1% to 1.25%:
https://money.cnn.com/2004/06/30/news/economy/fed_decision/.
- ② End of the hiking cycle at 5.25%, in **September 2007**:
https://money.cnn.com/2007/09/18/news/economy/fed_rates/index.htm

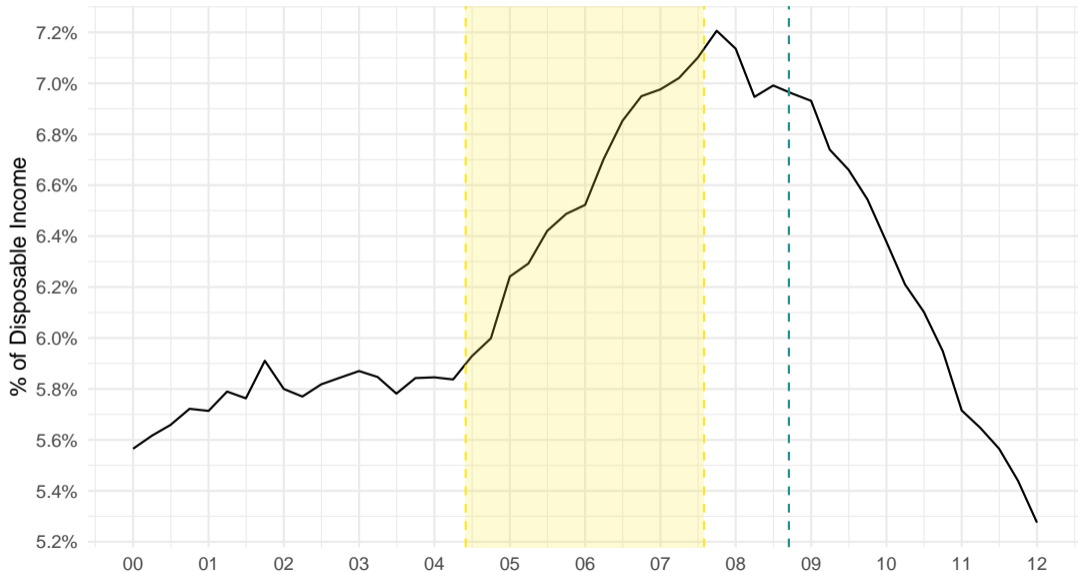
Fed Hiking Cycle



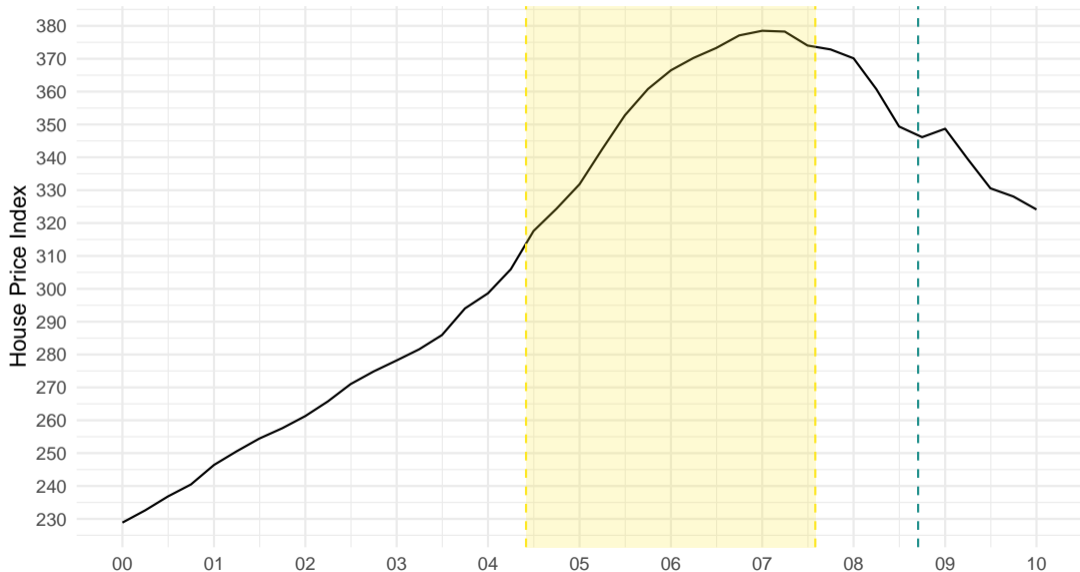
Debt Service Payments

- These increases in the Federal Funds Rates caused rising mortgage payments for homeowners.
- Debt Service Payments as a % of disposable income:
<https://www.federalreserve.gov/releases/housedebt/default.htm>.
- Household Debt Service and Financial Obligations Ratios.

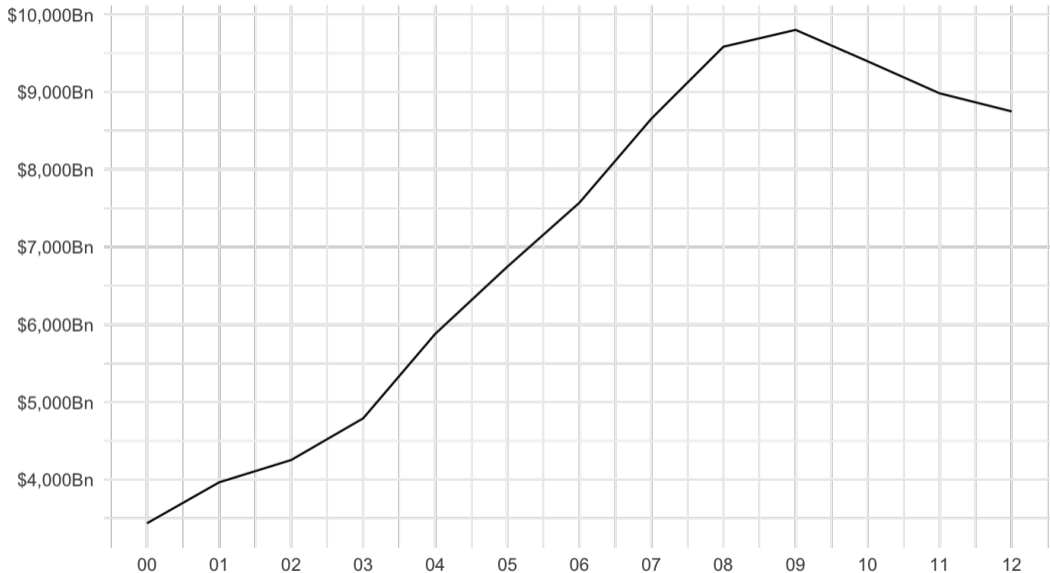
Mortgage Debt Service Payments (% Disp Inc)



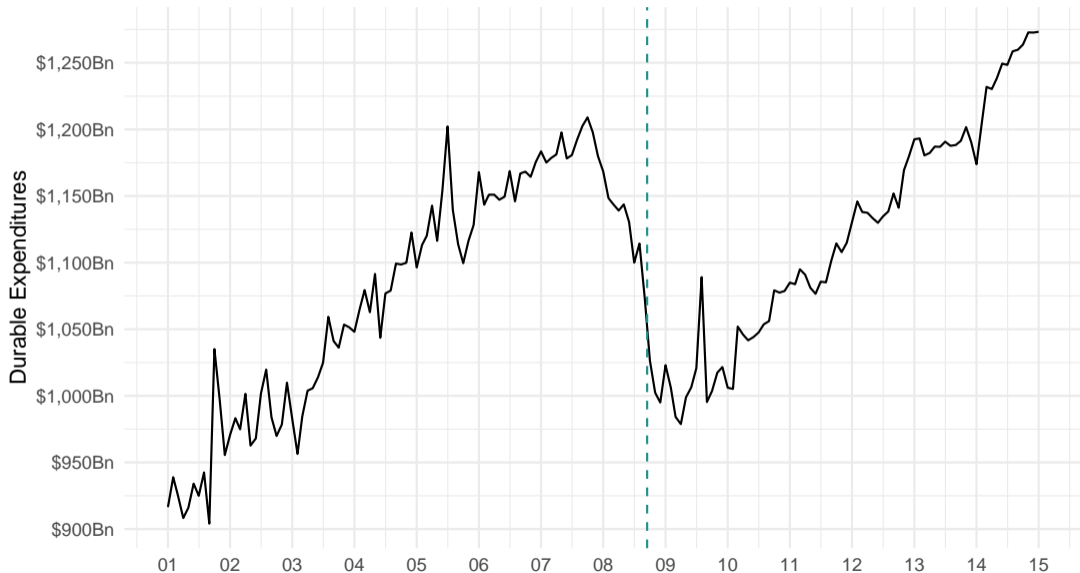
House Prices or Mortgage Payments ?



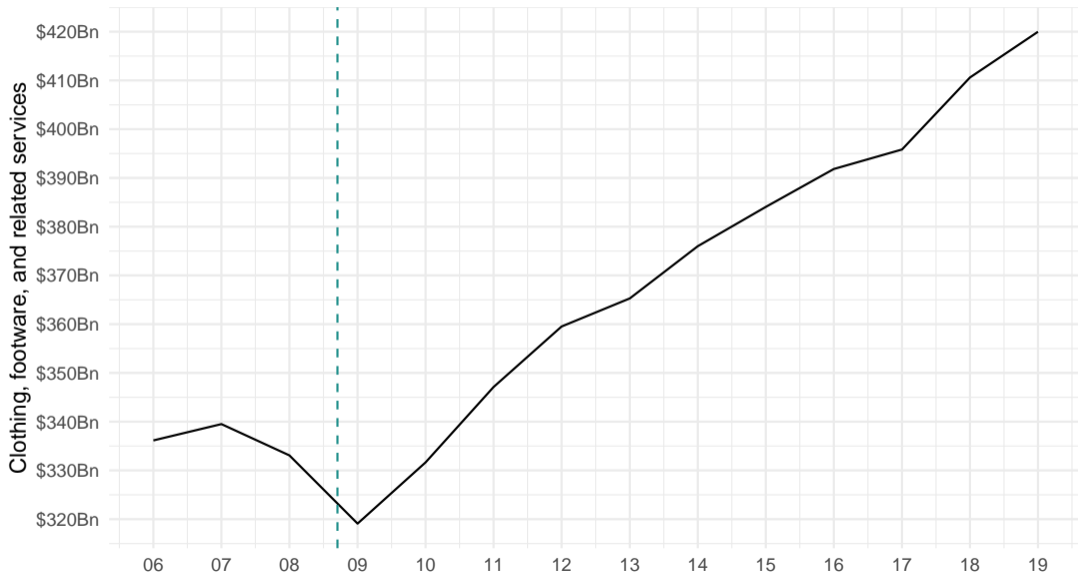
Aggregate Household Credit (New York Fed)



Durable Expenditure



Clothing



Section 4

Back to Michael Burry

Back to Square One

- I started out the course with UCLA Alumni Michael Burry.
- In his 2012 Commencement Speech, he was very critical:
 - ▶ of traditional education he had received in economics.
 - ▶ of mainstream economics and finance.
- I hope you can know understand his views with a fresh eye.
- I do not agree with everything he says, and particularly about his very critical view of government / private debt. As I told you, there's a reason why finance is so unstable, and governments borrow so much: there is "too much" money in the world.

I saw the crisis coming, why didn't the Fed ?

I Saw the Crisis Coming. Why Didn't the Fed?

By Michael J. Burry

CUPERTINO, Calif.

ALAN GREENSPAN, the former chairman of the Federal Reserve, proclaimed last month that no one could have predicted the housing bubble. "Everybody missed it," he said, "academia, the Federal Reserve, all regulators."

But that is not how I remember it. Back in 2005 and 2006, I argued as forcefully as I could, in letters to clients of my

chairman responded that my insights had been a "statistical illusion." Perhaps, he suggested, I was just a supremely lucky flipper of coins.

Mr. Greenspan said that he sat through innumerable meetings at the Fed with crack economists, and not one of them warned of the problems that were to come. By Mr. Greenspan's logic, anyone who might have foreseen the housing bubble would have been invited into the ivory tower, so if all those who were there did not hear it, then no one could have said it.

As a nation, we cannot afford to live with Mr. Greenspan's way of thinking

Video of Commencement Speech

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# [1] "Link to the video:"
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Quote

In 2010 I published an op-ed in the New York Times posing what I thought was a valid question of the Federal Reserve, Congress, and the President. I saw the crisis coming ... why did not the Fed? Never did any member of Congress, any member of government for the matter, reach out to me for an open collegial discussion on what went wrong or what could be done. Rather, within two weeks, all six of my defunct funds were audited. The Congressional Financial Finance Inquiry Commission demanded all my emails and lists of people with whom I conversed going back to 2003, and a little later the FBI showed up. A million in legal and accounting costs and thousands of hours of time wasted – all because I asked questions. It seemed they would pump me at gun point or not at all. That summer the Federal Reserve put out a paper that concluded nothing in the field of economics or finance could have predicted what happened with regards to the housing bust and subsequent economic fallout.

Michael Burry's letter

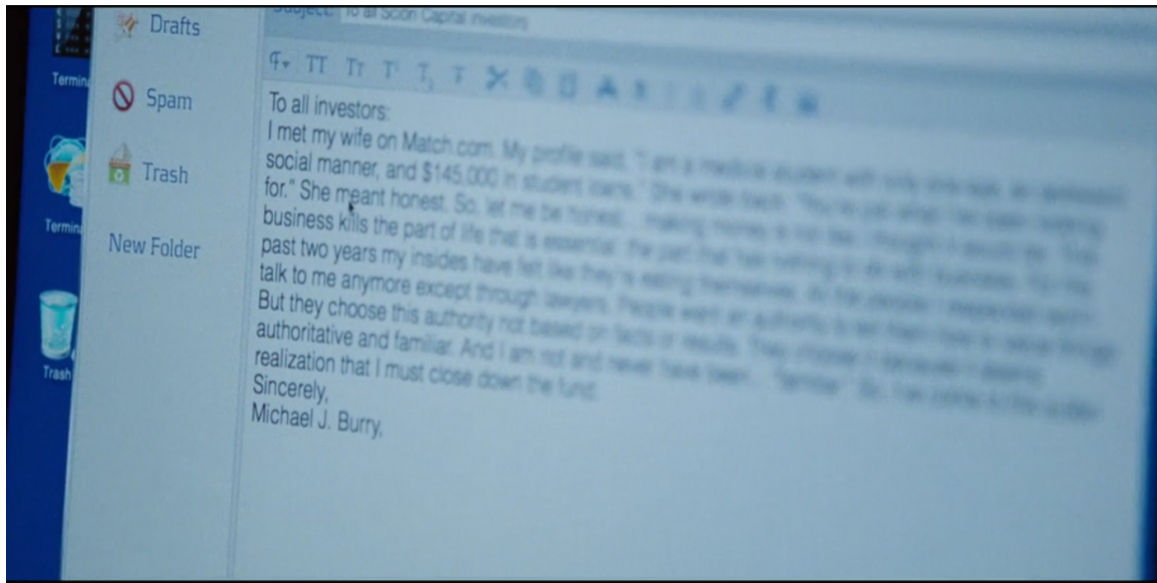
To all investors:

I've met my wife on Match.com. My profile said: "I'm a medical student with only one eye, an awkward social manner, and \$145,000 in student loans." She wrote back, "You're just what I've been looking for." She meant honest. So let me be honest. Making money is not like I thought it would be. This business kills the part of life that is essential. The part that has nothing to do with business. For the past two years, my insides have felt like they're eating themselves. All the people I respected won't talk to me anymore except through lawyers. **People want an authority to tell them how to value things, but they choose this authority not based on facts or results. They choose it because it seems authoritative and familiar.** And I am not and never have been... "familiar." So, I've come to the sullen realization that I must close down the fund.

Sincerely,

Michael J. Burry, M.D.

Screenshots



Explanations

- I think Michael Burry's right that economists missed something.
- Probably, as he said, because they were too busy “moving a pile of bricks.” (that is, publishing papers in prestigious journals, instead of paying attention to what was going on in the weeds of the financial system)
- However, I hope you now have a more nuanced view of Michael Burry's other ideas on public debt. My thesis is that there's actually a lot of money in the world, and that it explains the kinds of financial excesses we appear to observe all the time, including the 2007-2009 financial crisis.
- In any case, stay tuned ! Read *The Economist*, the great press, be curious.