

The 2007-2008 Global Financial Crisis (Hamburger Crisis)

Explain the cause(s) or the story behind the recession.

The financial crisis was primarily caused by deregulation in the financial industry. That permitted banks to engage in hedge fund trading with derivatives. Banks then demanded more mortgages to support the profitable sale of these derivatives. They created interest-only loans that became affordable to subprime borrowers.

In 2004, the Federal Reserve raised the fed funds rate just as the interest rates on these new mortgages reset. Housing prices started falling in 2007 as supply outpaced demand. That trapped homeowners who couldn't afford the payments, but couldn't sell their house. When the values of the derivatives crumbled, banks stopped lending to each other. That created the financial crisis that led to the Great Recession.

Big banks had the resources to become sophisticated at the use of these complicated derivatives. The banks with the most complicated financial products made the most money. That enabled them to buy out smaller, safer banks. By 2008, many of these major banks became too big to fail.

What happened to GDP (or growth rate), unemployment, and inflation of affected counties?

All these factors combined to produce and prolong a deep recession in the United States. From the beginning of the recession in December 2007 to its official end in June 2009, real gross domestic product (GDP) - i.e., GDP as adjusted for inflation or deflation - declined by 4.3 percent, and unemployment increased from 5 percent to 9.5 percent, peaking at 10 percent in October 2009.