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Research Project 1

Instructions

1. Do research on 4 economic crises:
   - The 1930s Great Depression
   - The 1970s Oil and Energy Crises
   - The 1997 Asian Financial Crisis (Tom Yum Kung Crisis)
   - The 2007-2008 Global Financial Crisis (Hamburger Crisis)
2. Answer the questions WITHIN the space provided.
   (ห้ามเขียนเกินหน้ากระดาษที่กำหนดไว้)
3. You can do your work on the IPAD or the printed worksheet (scan and submit), but DO NOT TYPE.
   (สามารถ Print แล้วเขียนแล้ว Scan ส่งได้ หรือเขียนบน IPAD แล้วส่งก็ได้ แต่ห้ามพิมพ์)
4. <u>The submission is via Moodle, and the deadline is on Sunday, 7th March.</u>
5. <u>Any student committing plagiarism or suspected plagiarism will receive a mark of 0.</u>

Grading Criteria

- A full mark will be awarded to those who can CORRECTLY answer the questions in the MOST CONCISE and EASY-TO-UNDERSTAND manner.
- Grammatical mistakes will have NO effect your mark, but please try to make your answer as readable as you can.
- You are not required to use all the space provided. Some questions require shorter explanations. As previously mentioned, the more concise, the better.

Hints / Tips

- Probably, you can start by looking through Wikipedia or Investopedia.
- After that, please have a wide range of research.
- Youtube will certainly help.
- Please note that some websites may contain wrong information.
- <u>You can also add some numerical data of ONE country that was affected by the recession to support your answer for the second question.</u>

when price drop | Business will cut cost | by laying off worker

These worker have no jobs → so inventories keep piling up. price drop further | bank won't lend. | business went bankrupt | leaving more unemployment.

The 1930s Great Depression

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

After the first World War, when the economy starts to grow back up people were taking loans for technologies and those technologies help to produce goods at a faster rate. People wanted to make more money so they invest, stock was the safe investment for them at the time because it was growing at a steady rate. They even take loans to buy those stock (buying on the margin). It was when the stock market crash that made the people who buy on the margin now owe their broker money so a lot of business went bankrupt. A lot of the banks also shutted down because they ran out of money to give out loan. That is the story behind the Great Depression. Causes: more goods → prices drop → business cut cost by reducing amount of workers → worker become unemployed → they can't buy products → inventory build up → Price drop even more → bank can't give out loan → businesses bankrupt → more people become unemployed 2 views on the causes. Keynesian and Friedman view: Keynes believes that the government is responsible for making sure that people are employed and what they should do is spend money to create jobs. On the other hand, Friedman believes that the bank system was at fault because they are the ones who can't give out loan and went down.

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

During the Great Depression, the estimated worldwide gdp plummeted by 15% compare to the recession, this is the worst recession so far. Unemployment in the US was as high as 25% from 4.2% in 1928. Germany is affected the most because when the US calls in for loans, German industry lay off workers to cut cost. The made the aggregate expenditure plummet and it started to go down the same line as the US. This is one of the reason why germans at the time lose faith in democracy and fuel the Second World War.

The 1970s Oil and Energy Crises

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

After the second World War, the world economy starts to grow back up. In late 1960, many countries including: US, Canada, Western Europe, Australia and New Zealand peaked in petroleum production the 1973, Arab war conflict are soon to changed that. After the peaked in petroleum production around the world, the shortage for heating oil started. In 1973, during the Yom Kippur war (Arab-Israeli), the Arab imposed an embargo (trade and commerce ban) against countries that would support the israeli in the war. They declared to stop all oil shipments to United States, this could cause a major rise in the price of oil so many countries dissociated themselves from the Arab war situation. The US successfully create peace in the middle east by negotiating the israeli to withdraw the troop. The settlement was enough to convince Arab to lift the embargo in 1974. The Arab petroleum exporting organization realizes that their product are crucial for many countries so they decided to raise the price of the oil. The increase in price causes inflation, but the unemployment rate was also high at the time and with the stock market crash in 1973-1974, it caused the recession during the year. This time the cause being stagflation.

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

US GDP fell by 3.2% and the peak unemployment rate was 9% in 1975.

UK GDP also fell by 3.9%. The unemployment rate rises from its lowest 3.7% in 1974 to 5.6% in 1976.

The 1997 Asian Financial Crisis (Tom Yum Kung Crisis)

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

The crisis started in Thailand. From 1990-1995, Southeast asia economy was doing very well, so well that they named the era: "The tiger economy". Countries in asia including Thailand, South Korea, Malaysia, Indonesia and philipines have an average growth rate of Annual GDP% at around 7% (Thai at 9%). Everybody was confident and invest a lot, everybody wants to chines in in this golden era. In 1990, US went through a recession so they have to lower the interest rate making southeast asia a prosperity in investors' eyes. The recession ended in early 1991 and didn't seem to be a problem at the time. People continue to invest, capital were invested in alot of projects, but alot of the assets are left unused and that is when a bubble is created. At the same time that the US recover and started to raise the interest rate the southeast asia market less interesting and at the same time dollar currency has become more valuable. The bubble kept growing, not only in Thailand but also in neighbor countries. This buble was caused by "Hot Money" that is put in a lot of asset that has small value and as the US dollar get stronger Thailand fear that the high foreign exchang rate so they unpegged from US currency and after that value of SEA currencies drop as high as 80% in value.

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

Thai Stock market dropped by 75%, 600,000 Foreign workers sent back to their country

1996 to 1997 Nominal GDP percapita drop

Indonesia 43.2%, Thailand 21.2%, South Korea 18.5%

The 2007-2008 Global Financial Crisis (Hamburger Crisis)

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

It is called the Subprime Mortgage Crisis. It started with something called mortgage backed-securities, it is a bundle of mortgages that has been bought by large financial institution. The reason why it is attractive to the investors is because the interest rate is very high and anybody at the time would think "who in the world wouldn't pay for their houses", so they think that the investment is safe with big gains. Another consumption that investor make is that the houses price in the US are going up so the worst case scenario is that if the buyer defaults, then the investor could just sell those houses and make more money. At first they were giving those bundles AAA-rating meaning the buyer of the house are sure to pay, but as demand for these investment goes up. These financial institution start selling subprime mortgage which is the terrible rating ones because there are only so much of those AAA-mortgage. This created a bubble waiting to burst. When borrowers start defaulting putting more house on sale in the market, but no one is buying. The housing price drop tremendously. And once before everyone know the housing market collapse and after that Great Recession.

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

Worst Recession since The Great Depression
US real GDP fell by 4.3% $650 billion
Stock market and housing prices fell by $11.5 trillion
Unemployment rate peaked at 10%
\# of persons with jobs fell 8.6 million