Newspaper periodical project essay

Business, Accounting

Abstract The aim of the project is analysis and discussion of the four articles related to the economic subjects. The articles are analyzed in the light of the contemporary economic conditions.

Newspaper/ periodical projectSchwarz, N. (2007, September 2). Can the mortgage crisis swallow a town? The New YorkTimes. Retrieved September 2, 2007 from

With the rapid expansion of the subprime lending area, many professional economists and financial specialists predict near collapse of the overall U. S. credit system. Despite the negative predictions, the issues within the sphere of subprime lending and mortgaging continue. The tradition to provide consumers, who do not have sound credit history, with credit money, is becoming threatening not only to the financial market, but to the consumer welfare as well. The absence of clear credit conditions understandable to potential borrowers lead to the situations, when the whole town districts consist of the houses for sale. The question of whether mortgage crisis can swallow small towns seems to have absolutely positive answer, and the tendency does not decrease with time. The situation in Cleveland is described through the eyes of a common resident, whose feelings on seeing the emptying houses remind panics.

‘ It is a scene being repeated in cities and towns across America as loans that were made to borrowers with little or no credit history, many of whom could not even afford a down payment, fail in ever-growing numbers’. (Schwarz, 2007)The problem has for long been confined to the economically struggling areas, being seriously expanded to the volumes of national phenomenon. The range of consumers suffering the negative consequences of subprime lending is not limited by borrowers in need, but is gradually supplemented by the middle-class representatives. (Hill 2007, p. 251) The issue should be analyzed from the two different viewpoints – lender's and borrower's risks. Borrowers risk losing money due to the misunderstandings in lending conditions; lenders risk losing money due to the situation at the housing market. This situation is characterized by the construction slowdown, together with the slowdown in housing sales.

Lenders risk losing money due to their inability to sell the borrowers' houses for the expected price. (Hill 2007, p. 254) The article makes it clear, that despite the underlying property values being harmed by foreclosures, there is a significant number of lenders, who do not understand the importance of searching the common solution for the mortgage problems. The model of lending has experienced serious shift towards lucrative strivings and ' irresponsible for the sake of greed'. (Schwarz, 2007) There are still a number of financial institutions, which keep from drowning in the subprime lending waters. The Third Federal Savings and Loan in Cleveland is one of them.

The temptation to earn ' easy money' has been compensated by the stability of the financial entity. Moreover, new programs for risky borrowers have been created for the potential borrowers to clearly understand mortgage conditions and the ways the loans work. It is essential for the borrower no matter if his (her) credit history is sound or poor, to realize, what he (she) will owe for using the borrowed money. This will lead to the more stable housing and lending markets. The issue of mortgage meltdown is even more severe in the districts combining economic problems and ‘ steadily appreciated housing prices’. (Schwarz, 2007) This is why the issue should be closely analyzed on the subject of the most effective methods, which can resolve the mortgage meltdown issues.

Otherwise, there is serious risk that many financial institutions may not survive the worsening situation. CNN Money. (2007). What is stock? CNN Money.

Retrieved September 2, 2007 from The article is devoted to the discussion of how money on stocks can be earned, what types of brokers exist and how they can assist usual consumers to invest and gain profits with the help of this investing.

The article can also be connected with the subject of previous discussion. As financial institutions strive for earning easy profits, individual consumers strive for acquiring serious experience in using financial markets to obtain additional earnings. The company may have two different options in how money can be earned – additional earnings are gained either through borrowing the available money or through issuing additional stocks and selling them to the investors. (CNN Money, 2007)‘ Now typical stock buyers rarely think like owners, and it’s as if they actually have a say in how things are done. […] Over time, stocks in general have been solid investments. That is, as the economy has grown, so too have corporate earnings, and so have stock prices.

’ (CNN Money, 2007)Individual consumers frequently underestimate their capabilities in resolving conflict financial issues, as well as the additional values they can bring to the companies seeking profits. As individual borrowers do not see any space for negotiating the tight conditions of subprime lending, the similar situation is determined in individual being unable of ‘ owner’s thinking’. Moreover, both mortgages and stocks have traditionally been safe and reliable means of investing (borrowing) money, but contemporary business environment has led to the changing structure of borrowing/ investment. Stocks are presently viewed more than a simple means of obtaining fast profits than the means of long-term investment.   The article (CNN Money, 2007) is interesting in providing the reader with the basic knowledge as for the choice of brokers. It is difficult to assess the quality of advice a common customer can acquire from the specific broker, based on his type and qualification; the article gives enough criteria for deciding, what type of advice each type of brokers can provide.

According to the article’s content, the choice of brokers is limited by full-service brokers, online brokers and discount brokers. (CNN Money, 2007)   Depending on the type of stocks one is willing to purchase, as well as the personal financial knowledge and capabilities one possesses, there is a set of recommendations to be followed in searching for the right broker. The cost-effectiveness of each financial project is implied; this is why accounting the cost of brokers’ services is crucial to make the proper choice. full-service brokers are eligible to tracking the stocks the client chooses and to recommending the possible changes in the list of the chosen stocks for the client’s benefit. Simultaneously, if the individual is capable of performing effective financial research, significant costs can be saved by choosing discount brokers for help.

‘ The nice thing about the way the brokerage world is shaping up is that you may be able to have both of those things in one account at one firm’. (CNN Money, 2007) The price of the full-service brokers’ services is estimated as a percentage of the individual’s purchases; discount brokers have an average charge of one-third towards the price, which full-service brokers request. The price for online brokers’ services is never lower than $9 per trade; online brokers sometimes rate their services no cheaper than $15 per trade.

(CNN Money, 2007) There is still vast amount of knowledge required to become a successful financial specialist. Outside brokers, surely, become a reliable help in earning money, but without profound knowledge of financial mechanisms and individual abilities to ‘ play’ with stocks, it will hardly be possible to provide oneself with the stable income source in the form of stocks. Monica, P.

(2007, August 17). Fed cuts discount rate. CNN Money.

Retrieved September 2, 2007 from The subprime debt crisis described in the first article (Schwarz, 2007) has also become the subject of this discussion in relation to Federal Reserve decreasing the discount rates by 0. 5 percent. The event has caused ardent arguments as for the relevance of this step and the effects it will bring to the overall U.

S. economy. Despite the author’s opinion that the discount rate is mainly a symbolic value and its change cannot cause serious effects (neither negative, nor positive) on the economic structure, financial specialists tend to think that decreasing the discount rate to 5. 25 is more than a mere symbolic move.‘ This is an important move. It’s not just a symbolic action.

The Fed is telling banks that the discount window is open. Take what you need.’ (Monica, 2007)Wall Street has also actively supported the discussed cut. In the economic atmosphere being driven by emotions, cutting the discount rate serves the instrument of supporting financial stability on the market. During the last Federal Reserve meeting the discount rate has not been changed; this means that financial specialists strive to maintain the high level of market liquidity without displaying any sign of being in panics over the subprime mortgage crisis. The desire of financial institutions to make quick profits through subprime loans has caused high level of uncertainty on the market. Along with the moderate growth and development of the American economy, the downsize risks to the economic growth have also increased.

To limit the turmoil on the financial markets Fed has allowed more cash in the country’s banking system. In order to restore the investor’s confidence and to partially smooth the negative effects caused by mortgage meltdown, it is recommended that the Federal Reserve cuts discount rates once more. As any financial activity, such cuts can be approved or criticized. The criticism of these steps is anchored in the assumption, that low discount rates lead to creation of the‘ low interest-rate environment that fosters a culture of ‘ easy money’ where consumers who had poor credit histories are able to take out the types of exotic mortgage loans that are now defaulting’. (Monica, 2007)Thus a question appears, whether decreasing discount rates serves for the benefit of the financial system and leads to the resolution of mortgage meltdown issues, or whether it displays absolutely opposite effect and aggravates the current situation. The opinions on this matter substantially differ. On the one hand, it is possible to suggest, that further cutting discount rates may lead to bailing out the consumers, who are not able to obtain any credits or mortgages.

Simultaneously, cutting rates is judged as being a good strategy for preventing the whole economy’s suffering. It is clear that Federal Reserve actively searches effective means of addressing current economic and financial issues, and there will never be any single opinion as for how to evaluate the Fed’s actions. The article (Monica, 2007) relates to the interesting opinion expressed by the President of Smith Affiliated Capital, Matthew Smith. His position is absolutely negative towards cutting discount rates; admitting the positive aspects of such actions, he understands that Federal Reserve will have to face the risks of increasing inflation, which in its turn may lead to oil and gold prices increase. Moreover, ‘ treasure bonds could become less attractive to foreign central banks if the dollar falls further’. (Monica, 2007) However, understanding the unpredictability of financial processes, it is difficult to be 100% confident as for the effects discount rates cutting may bring. It is possible to suggest, that it is an effective step for resolving current issues; the emerging issues though will have to be addressed in time. Luskin, D.

(2007). Inflation is everywhere. The Silverbear Café. Retrieved September 2, 2007 from

com/private/inflation2. html> The assumption, that inflation impacts all areas of economic activity, has for long been denied by the fact, that bonds yields remained at a constant low level. The article is centered on describing the impact inflation causes on the bonds market and the purchasing power of money obtained after the bonds mature.‘ It’s that there are some unique things going on in the world that have convinced investors — falsely convinced, I should say — that inflation cannot possibly be a threat now. But make no mistake: It is a threat.’ (Luskin, 2007)The author of the article (Luskin, 2007) relates to the idea, that investors have made a serious mistake when counting the factors, which positively influence the general state of economy. Cheap labor from foreign developing countries, among which China and India take the leading place, should have positively changed the ratio of consumer prices and productivity indices. The situation, which is currently observed on the bonds’ market, leads the author to the suggestion that the prices tendency to fall does not mean there was no inflation.

(Luskin, 2007) The suggestion is rather argumentative; as one should remember, according to the common definition, inflation ‘ is the loss of purchasing power of a currency unit such as dollar, usually expressed as a general rise in the prices of goods and services’. (Christiano, 2003) So, who is right in assuming inflation can impact bonds and other economic activities without making the prices increase? The discussed article is interesting in making the reader think about the interrelation of productivity and inflation. In this case the general picture becomes understandable: the decrease in the labor force costs are totally compensated by the inflation rates, preventing the prices from becoming lower. Continuing this discussion line, the reader is transferred to contemplating on interest rates / inflation correlations. The prices for the basic consumer necessities are estimated to be soaring: the inflation rate of the Consumer Index Price has more than doubled since 2003. (Luskin, 2007) Bond prices in this case are also related to as being sensitive to inflation.

As long as the bonds mature, their holders become more concerned with the purchasing power of money they receive for these bonds at the end of the maturing period. This purchasing power is determined by nothing but inflation and this is where the two notions (bond and inflation) come into close contact. It is interesting to point out, that as enterprises tend to decrease their costs and possibly decrease the prices which consumers have to pay for the ultimate goods, this decrease becomes almost unreal in the light of inflation realities.

Moreover, hardly any inexperienced consumer, willing to invest into bonds as one of the most reliable securities, will think of inflation ten years ahead, when those bonds mature. The knowledge acquired from reading the article (Luskin, 2007) makes it significant to account the inflation rates to evaluate possible losses and gains after the period of bonds' maturing. As the labor costs' decrease is masked by increasing inflation, the impact of inflation appears to be masked in relation to the bonds market.

It is possible to state that inattentiveness towards the inflation’s impact on bonds market has led to masking these effects from an individual. The reader should admit that these effects are gradually becoming more understandable and lead to the realization of what real financial profits can be obtained through investing into bonds. With the bond yields being unreasonably low, this discrepancy is now being corrected through the inflation higher than expected. It is still unknown whether financial institutions will undertake certain steps to restrain the inflation’s impact on bonds. One thing remains clear: while the bond market is starting to see through the non-inflation masks, raising interest rates could ‘ stop the inflationary impulses that bonds are finally beginning to fear’. (Luskin, 2007)ReferencesChristiano, L. (2003).

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