

Effect of the economic recession

Literature, Russian Literature



Economic Recession XXXXXXXXXXXX XXXXXXXXXXXX Economic recession is a term one often hears these days. It is not a new phenomenon that is haunting the countries around the world. Many times in the past, various countries have seen recession in their economy. One example is the economic recession of United States of America after the Great Depression of 1929. The world finds itself again in the clutches of economic recession. While some economies have recovered, others are still struggling to deal with it (Cynthia, 2011).

The economic recession didn't happen overnight, though, the world was definitely caught by surprise. Many experts believe that the seeds of this recession lie in the policies of the Federal Reserve Bank of America in the aftermath of attack on world trade center. The bank feared that the terrorist attack would create a panic in the market and hence will affect U. S. economy. Fearing this, the bank decided to lower the interest rates to a record low level (Makinen, 2011).

The effect of this policy was that credit was cheaply available to the people. This situation was misused by Wall Street and many banks such as Fannie Mae and Freddie Mac. What these banks did was to provide people with very cheap loan on houses that couldn't have been affordable otherwise. The property market was rising at the time and so huge amount of sub-prime loans were issued to the American people. The people took loans from the banks as they were confident that the rise in house prices would provide them with the money they needed for repayment of loan.

But after some time of the boom, the property market busted. The price of the houses touched record low and so people started to default on their

loans. They didn't have money to pay back. This meant that the banks who had issued this loan were in deep cash problems. The phenomenon was so huge that first Fannie Mae and Freddie Mac filed for bankruptcy (Jicking, 2007). Next in line was Lehman Brothers which had similar problems. With Lehman Brothers filing for chapter 11 Bankruptcy, the world was heading towards credit crunch. The banks worldwide didn't know which bank had how many bad debts to its credit. There was suspicion all around and hence the banks were weary of giving loans to each other.

When the banks withheld supply of money in the market, the businesses started to feel the heat. All these events had a ripple effect. There was reduction in demand and because of this unemployment rates went up in the U. S. With the growth decreasing in the domestic market and exports being on a gradual decline, America entered into recession (Brezina, 2011).

America is still a superpower and a world leader. When it went into recession other economies such as United Kingdom followed. The traits of recession in U. K. were similar to the U. S. Unemployment rose, businesses closed and inflation soared. The standard of living went down as people had to pay more to get less and that too at a time when they didn't have jobs (Oakland, 2007).

There are many measures a government takes in order to deal with economic recession. It lowers interest rates, prints more cash, gives support to businesses and focuses to increase growth in domestic market as well as in exports. But as it can be seen in context of U. K., the government also takes many hard steps to deal with financial problem. There have been cuts in the public sector pensions, cuts in defense, healthcare and education

budgets.

These cuts have demoralized people and made their life harder. The rise in tuition fees and cuts in education budget means that students find themselves working harder for fewer savings. Recent riots in London were attributed to the frustration in the young generation about their future. It can be seen that events in America caused credit crunch which led to the worldwide economic recession. The life of people has become harder but with hard work and planning the world hopes to fight back the problem of economic stagnation.

References

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