

# Recent trends in the united states economy

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A rise in the amounts of loans being advanced by the banks and that also with a desperate objective of earning higher revenues in the process, by advancing loans at high-interest rates to subprime borrowers, i. e., those who cannot offer any mortgages against the loans that they took. The frantic pace at which the banks started lending out money soon paved the path for the sale of mortgage-backed securities by the banks that were bought by many large companies who were promised to be reimbursed with interest payments against them. However, when the Fed saw this high liquidity in the economy, it implemented a contractionary monetary policy and reduced the rate of interest in fear of inflation. This led to a rise in the opportunity cost of holding liquid money and people started investing in real estate that was rather cheap. Most sub-prime borrowers defaulted in paying back the loans and walked out of their contracts voluntarily, which again led the banks to default their interest payments on MBS. Thus most banks declared themselves bankrupt leading to the collapse of a large number of companies and hence a financial crisis set in.