

# Letting go of lehman brothers essay sample

[Economics](#)



**ASSIGN  
BUSTER**

Q1) Do you believe that the U. S. government treated different financial institutions differently during the crisis? Was that appropriate? This question that whether the government treated some institutions differently is not a difficult one to answer. Saving AIG and letting go Lehman brothers defines it all but they had their reasons. The (FDIC) would say that AIG having collateral whereas Lehman brothers showing no such promise for payback was the reason for different treatment. Lehman Brothers failure was a wakeup call for government. However, if Lehman Brothers had been aided, perhaps the financial world would not have come to a screeching halt, stopping lending and borrowing altogether for a brief period of time. Institutions confidence in the system led them to this point whereas government was expecting Barclays and American bank to intervene which they never did. Whether the different treatment given to financial institutions was “ appropriate” is difficult to determine. It does not seem “ fair” for Lehman Brothers to not have received any government aid, but then again they were known for taking large risks and with the chance to succeed also come the risk to fail.

Q2) Many experts argue that when the government bails out a private financial institution it creates a problem called “ moral hazard,” meaning that if the institution knows it will be saved, it actually has an incentive to take on more risk, not less. What do you think? It is human nature to push limits, and the moral hazard argument fits very well with the Lehman brother’s case. If rewards are associated with higher risk, one might think that an organization would push until punished. It is possible that the government let Lehman Brothers fall and fail to maintain its status in the

financial markets as an example to other institutions. Perhaps it was very important to let one financial entity fail so others do not follow. This may not be the most moral lesson to be taught but the bottom line is that with moral lessons also comes the potential move away from pragmatism into short-term collateral damage. Do you think that the U. S. government should have allowed Lehman Brothers to fail? The U. S. government's decision to allow Lehman Brothers to fail is a double-edged sword.

The implications behind allowing Lehman Brothers to fail include a massive domino effect on the U. S. market, and the world markets. Due to the size of the bank, its collapse has been accused as the major force behind the downward spiral of economies, domestic and foreign. Had the U. S. government assisted Lehman Brothers as it did with Fannie Mae and Freddie Mac and AIG, investor confidence across the globe may not have faltered as it did which in turn would not have negatively impacted the world markets. On the other hand, if the government had assisted Lehman the question comes to mind as to who would foot the bill for such a massive bailout?

The government already provided AIG alone \$85 billion in federal assistance. It was also believed that Lehman Brothers was "too big to fail" and with such an air of arrogance and AIG's discretionary spending of the government loan, the government most likely was trying to make an example out of Lehman Brothers by letting it fail. Making such an example out of a large corporation set the tone for other large corporations to operate responsibly and ethically. If Lehman Brothers did not have such a consequential impact on the global economy, then yes, the government should have allowed the

banking giant to fail, but since its failure was so astronomical there should have been some assistance to lessen the blow.