

Subprime mortgage crisis of 2007-09 and the recent eurozone crisis

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Subprime Mortgage Crisis of 2007-09 and The Recent Eurozone Crisis The subprime mortgage crisis and the Eurozone crisis share a lot in common much as they have their differences. One similarity between the two crises is with respect to their causes. In both cases, the interest rates were lowered so that even parties that were sub-prime had easy access to loans. In the case of the Eurozone, countries like Portugal, Ireland, Greece, and Spain (PIGS) spend a lot of money borrowed from the market to finance subsidies and bank bailouts among other expenses (Belkin, Weiss, Nelson & Mix 7). The countries got greatly indebted and could not raise enough money to pay back their debts. Investors lost confidence in the highly indebted countries as a result. Another similarity between the crisis was in respect of fake ratings that gave illusions of low risk. S&P and Moody provided fake ratings regarding the performances of the different countries and made banks invest in weak borrowers (sub-prime individuals and highly indebted countries) (Cohan par 3). In both cases, the crisis was fuelled by panic when the reality dawned on different players (lenders/investors/governments). In the case of the U. S., banks realised that the sub-prime mortgage derivatives could not sell when the prices of houses fell and responded by tightening their lending conditions and everyone tried to sell the mortgages to recover at least part of their investments (Krugman 14). In the Eurozone, when investors realised that the governments of PIGS were highly indebted, investors panicked and stopped their lending and investment in the market. The crisis had more or less similar effects; loss of jobs, business closures, countries' growth rates reduce significantly.

One difference between the two crises is in respect of their causes. While the

crisis in the U. S. was mainly caused by the issuance of sub-prime mortgages, the Euro-zone crisis was mainly caused by overspending by governments on different fronts.

Works Cited

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