**[TITLE]**

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It can be hard in school to really understand certain historical events. You might think to yourself “How can people be so evil?” or “How did the people in charge let this happen?” or “I wonder what it would have been like to live through that time and suffer with everyone else.” One such event was The Great Depression. The images of long lines outside soup kitchens, men holding signs begging for jobs, and stories of women making clothing out of burlap sacks leave a lasting impression. While I was not yet old enough to truly understand the scale and scope of the effects of The Great Recession, I am very glad that the fallout did not reach the levels seen in The Great Depression. It is unthinkable that such an event should happen once and words cannot describe how it is to have something happen twice. In order to prevent such an event from happening a third time we must ask like I asked before, “How did the people in charge let this happen?” How could ethical behavior in business have prevented The Great Recession from happening?

# Background

## A Brief Overview

Beginning in December 2007 and officially ending in June 2009, The Great Recession was the longest recession since World War II, although there is a good chance that the COVID-19 recession will reach similar levels of impact, albeit in different areas (Rich, 2013). GDP fell 4.3 percent from its high point in 2007Q4 to its lowest point in 2009Q2 (Rich, 2013). The unemployment rate grew even more than the GDP fell, at a peak of 10 percent in October 2009, nearly four months after the official end of the recession (Rich, 2013). People in all tax brackets felt the effects of the Recession with the S&P 500 falling a maximum of 57 percent, home prices falling an average of 30 percent, and overall US household net worth falling 20 percent (Rich, 2013).

Throughout the crisis, the Federal Reserve implemented a number of countermeasures such as decreasing the federal funds rate to zero or just above, down from about five and a quarter percent (Rich, 2013). Policymakers also enacted the Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009 which aimed for fiscal stimulus through government spending and tax cuts (Rich, 2013).

Ultimately, even four years out of the Recession, the unemployment rate still had not returned to its earlier rate of 5 percent and market recovery was still slow but steady (Rich, 2013). The Fed continues to change its policies to try and find the perfect mix to return the economy and to reflect current economic and political theory (Rich, 2013).

## Causes

The most commonly cited and most major cause of The Great Recession was a bursting housing bubble in the United States (Duignan, 2019). Since 2001, lenders had decreased the prime rate, the rate charged to the lowest-risk customers, which allowed the banks to lend at lower rates to higher-risk customers who normally would not have qualified for mortgage loans (Duignan, 2019). Thus, demand for homes increased dramatically which increased home prices until 2005, when home prices began to decline along with declining demand for housing (Duignan, 2019). Many subprime borrowers held mortgages with adjustable rates which increased alongside the aforementioned changes in housing prices and demand (Duignan, 2019). These adjustable rates rose to such levels that the borrowers were no longer able to afford their mortgage payments and their mortgage loans often became worth more than the homes they were taken out to pay for (Duignan, 2019).

All of this spelled trouble for the banks. So much of their assets were tied up in these subprime loans and bonds and less-risky debts such as mortgage-backed securities and other forms of consumer debt (Duignan, 2019). All of these debts were difficult to track and banks began to doubt each other’s financial statuses (Duignan, 2019). This mistrust in each other lead to an interbank credit freeze which hampered banks’ ability to lend to even financially secure customers, including businesses (Duignan, 2019). To balance their budgets, businesses then were forced to reduce expenses leading to job losses (Duignan, 2019). This began a cycle where people had less money to spend on goods so the companies producing those goods laid off more people and so on (Duignan, 2019). Big businesses and even large and prestigious banks and investment firms began to apply for government bailouts or merged with companies in better shape (Duignan, 2019). Some companies such as General Motors and Chrysler declared bankruptcy and accepted partial government ownership as part of their bailout packages (Duignan, 2019). Consumer confidence waivered and many households decreased spending to save in anticipation of tougher times ahead, which, in turn, dealt another blow to the health of businesses (Duignan, 2019).

**Literature Review**

# Bibliography

Duignan, B. (2019, September 26). *Great Recession*. Retrieved June 2021, from Encyclopedia Brittanica: https://www.britannica.com/topic/great-recession

Rich, R. (2013, November 22). *The Great Recession*. Retrieved June 2021, from Federal Reserve History: https://www.federalreservehistory.org/essays/great-recession-of-200709