THE ECONOMY TODAY 13e

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YouTube READY

YouTube Title: "The Crisis of Credit Visualized – Part 1" http://www.youtube.com/watch?v=Q0zEXdDO5JU
Video Length: 7:32 minutes

Chapter 9: Aggregate Demand, p. 178
Topic: Macro Failure, p. 194
Key Terms: 2008-2009 recession, housing crisis, credit crisis, macro failure, aggregate supply and aggregate demand
Learning Objective 4: How and when macro failure occurs.

Economic Application

This animated video describes the initial stages of the credit crisis, which lead in large part to the Great Recession of 2008-2009. Concepts such as sub-prime mortgages, collateralized debt obligations, frozen credit markets and credit default swaps are described in a clear and concise fashion such that all viewers come away with a more concrete understanding of the underpinnings of the crisis. This video explains how the low interest rates in the U.S. and the surpluses of Japan, China, and the Middle East made credit cheap and borrowing money particularly inexpensive. Thus, the result was the expansionary period of the early 2000s.

Multiple-Choice Question

How did the low interest rates of the early 2000s (2001-2004 in particular) impact the macro equilibrium of that time?

a) Aggregate demand decreased causing real output to decrease.
b) Aggregate demand increased causing real output to increase.
c) Aggregate supply increased causing real output to increase.
d) Aggregate supply decreased causing real output to decrease.

Discussion Question

Explain how the low interest rates of 2001-2004 impacted our macro equilibrium of the time?