6.2 - Teacher Text 1:

Firstly, let me address the issues concerning the world economic crisis. In 2006 many American banks lost money. This was a result of the 'subprime' problem where banks gave too many loans to people who could not afford to pay back the money. These are called 'bad loans'. As mentioned in last week's lecture, this meant that the value of the house was less than the loan, i.e. negative equity. Giving bad loans led to many families losing their homes. In many areas of the USA this was brought about by banks who wanted to encourage people to buy a house and pay back the loan for a long time.

Next, let us analyze how the subprime problem in the USA resulted in major problems worldwide. The key to understanding this is that many banks in the world borrow and lend each other money. They are all connected so when one bank falls, it causes all the other ones to fall too in a 'domino effect'. As a result of problems in the US banking sector, European and some Asian banks were also negatively affected. For example, some banks like Lehman Brothers closed and many people lost their homes. However, Japanese banks were not affected so badly due to the fact that they experienced many bad loans in the 1980s and consequently their policy is to be very strict in giving loans.