

YouTube Title: “The Crisis of Credit Visualized – Part 2” <http://www.youtube.com/watch?v=iYhDkZjKBEw>

Video Length: 3:44 minutes

Chapter 9: Aggregate Supply and 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 5: How and when macro failure occurs.

Economic Application

This animated video describes the turning point, as well as the final 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 final stages of the crisis of credit. This video identifies the turning point in the crisis where high-risk homeowners received mortgages, housing prices plummeted, CDOs lost significant value, and as a result, the financial system froze. This led to a significant number of bankruptcies, and what we refer to today as the Great Recession of 2008-2009.

Multiple-Choice Question

What is the impact of a dramatic decrease in the demand for new homes on our macro equilibrium?

- a) Aggregate demand decreases causing real output and the price level to both fall.
- b) Aggregate demand increases causing real output and the price level to both rise.
- c) Aggregate supply increases causing real output to rise and the price level to fall.
- d) Aggregate supply decreases causing real output to fall and the price level to rise.

Discussion Question

How will a dramatic decrease in the demand for new homes affect our macro equilibrium?