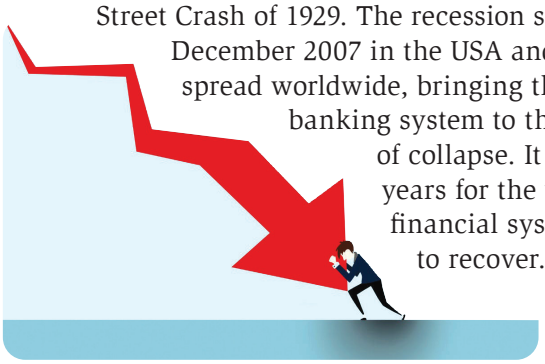
The crisis of 2008

In the late 2000s the global economy went through the worst financial crisis since the 1930s. This massive market slump in economic activity is commonly referred to as the **Great Recession**, a pun on the term Great Depression, which indicated the period following the Wall Street Crash of 1929. The recession started in December 2007 in the USA and gradually spread worldwide, bringing the world's banking system to the verge of collapse. It took two years for the world financial systems to recover.



Causes

The crisis started with the collapse of one of the biggest US investment banks on 15th September 2008, but the economic decline had started before then, with the terrorist attacks on the Twin Towers in 2001. To respond to the crisis which followed the Twin Tower attacks, the Federal Reserve System had reduced the interest rate from 6.5 to 1%. This resulted in a boom in the real estate market, since banks rushed to approve as many mortgages as they could. Even higher-risk borrowers (people with low creditworthiness) who previously would not have been granted a mortgage, could now get one and have the liquidity to spend and also speculate on the housing market. The increase in demand, together with a limited supply, caused a sharp increase in house prices. After a while, however, demand started to diminish and, consequently, house prices dropped: the housing bubble burst and triggered the global market **downturn**.

Consequences

Many borrowers found that they owed more on their mortgages than their houses were worth and struggled to repay them, also because interest rates had risen again. Millions of people lost their homes, jobs and savings. Since a large percentage of homeowners could not pay their mortgages back, lending institutions and banks suffered a shortage of liquidity that led many to the brink of bankruptcy. Share prices started to fall and this had negative consequences in Europe as well.

Response

Central banks and governments had to take extraordinary measures to face the 2008 crisis and contain its impact on the global economy. Governments introduced recovery plans aimed at reducing taxes, providing businesses with incentives to invest capital, and increasing loan limits. They also often had to bail out banks in order to increase credit supply and reduce corporate and consumer bankruptcies.



to bail out: *salvare finanziariamente*
to burst: *esplodere*
creditworthiness: *affidabilità creditizia*
downturn: *declino*
housing bubble: *bolla immobiliare*
mortgage: *mutuo*
to owe: *avere un debito, dovere (qs a qd)*
pun: *gioco di parole*
to rush: *affrettarsi*
slump: *crollo, recessione*
stake: *pacchetto azionario*
the brink of: *sull'orlo di*
to the verge: *sul punto di*
to trigger: *innescare, dare il via*
viable: *in salute*

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1 Match each of the following words to their correct definition below.

to bail out • borrower • lender • bankruptcy • housing bubble • creditworthiness • real estate • recovery plan • mortgage • market slump

1. The condition of not having enough money to pay your debts. .....
2. Property in buildings and land. .....
3. A set of measures used to respond to a difficult situation and minimise its negative impacts. .....
4. To help someone out of a harmful or difficult situation. .....
5. A person who gets money from a financial institution under an agreement to pay it back later. .....
6. An unexpected growth in demand for real estate. .....
7. Someone's ability to pay back the money they owe. .....
8. A loan of money people get from a bank in order to purchase a house. .....
9. Economic recession. .....
10. Someone that makes funds available to a person or business with the expectation of being repaid. .....

2 Read the text and choose the correct option.

An Example of Government Rescue Intervention: the Case of Chrysler Co.

In 2008, during the worst financial crises **1.** ..... the Great Depression, the American automobile industry almost died. One of the main US car companies, Chrysler, **2.** ..... potential insolvency and its future was at risk.

The iconic car company was led to that point by a combination of poor decisions made by industry executives, high gas prices, **3.** ..... products, as well as by external circumstances beyond the control of both the industry and consumers, namely a financial crisis that nearly took down the world economy. Only the emergency **4.** ..... implemented by the Obama administration saved the long-established firms from collapse and **5.** ..... millions of workers from losing their jobs. The US government spent $82 billion to bail out the automobile sector on condition that the companies in **6.** ..... were restructured so that they could become viable again.

After shutting down all vehicle production in December 2008 and enduring a 42-day period of **7.** ....., Chrysler accepted a $4 billion dollar federal loan and **8.** ..... an agreement with FIAT Automobiles S.p.A. of Italy. The viability plan included access to additional markets and technology sharing, especially concerning fuel-efficient engines applied to eco-friendly cars. The Italian company initially **9.** ..... only a 20% stake, but in 2014 FIAT completed the acquisition buying the remaining **10.** .....: the two companies rebranded and created a new holding, Fiat Chrysler Automobile, with a new logo, FCA.

Adapted from: *https://www.businessinsider.com/gm-ford-chrysler-almost-died-during-financial-crisis-changes-since-2018-9?r=US&IR=T*

1.	**a.** since	**b.** for	**c.** from	**d.** when
2.	**a.** met	**b.** faced	**c.** fought	**d.** led
3.	**a.** special	**b.** unpopular	**c.** costless	**d.** foreign
4.	**a.** exit	**b.** sabotage	**c.** release	**d.** rescue
5.	**a.** helped	**b.** supported	**c.** prevented	**d.** supplied
6.	**a.** troublesome	**b.** trouble	**c.** stress	**d.** difficult
7.	**a.** bankrupt	**b.** prosperity	**c.** bankruptcy	**d.** ruin
8.	**a.** granted	**b.** signed	**c.** broke	**d.** shared
9.	**a.** sold	**b.** purchased	**c.** accepted	**d.** bargained
10.	**a.** investment	**b.** shares	**c.** divisions	**d.** sections

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