

Learning From the Past: a
Comparative Analysis of the
Influences of the Great
Depression on the Recent
Financial Crisis



Shirish Bade Shrestha

The Carl & Winifred Lee Honors College

Overview



- Great Depression
- Recent Financial Crisis
- Similarities
- Differences
- Learning from the Past
- The Role of Financial Regulation
- Impact of Economic Sectors

Great Depression



- 1925-1929 United States = 50% of worlds industrial output.
- Black Tuesday, October 29, 1929.
- 346 Banks failed first 6 months.
- 25% unemployment nation wide
- The New Deal
 - \$500 million in federal pay cuts

Recent Financial Crisis



- Baby Boomers
- Oil prices
- 37 million were living below the poverty line
- 7.2% unemployment
- Stimulus package
- Bailouts
 - GM, J.P. Morgan, Chrysler, etc.

Similarities



- Banks
- Stock Market
- GDP
- Unemployment
 - 25% comparative to 7.2% (population)
- Inflation (oil/gas)

Differences



- Global effect
 - Globalization
 - “what’s good for GM is good for America”
 - U.S. GDP in 2006 was \$15 trillion, China was \$3 trillion and India at \$1.7 trillion
- Price differences on general services/goods
 - College, Houses, etc.
- Stimulus package vs. New Deal

Learning from the Past



- Third New Deal (stimulus package)
 - Changes from New Deal
- Bailout
 - Unemployment
 - GDP
- Ford Motor Company

Role of Financial Regulation

- Glass-Steagall Act
 - Banking Act of 1933, drew a line between investment banks and commercial banks
 - Repealed in 1999
- Basel I & Basel II

Role of Financial Regulation

- Basel I: let banks take on more risk in “less risky” transactions with a five category system.
 - Cash, took zero risk
 - Public risk, took varying risk (0-50% depending on rating)
 - Development bank debt took 20% risk
 - Residential mortgages took 50% risk
 - Private Sector took 100% risk

Role of Financial Regulation

- Basel I required banks to keep only 8% capital of the total Risk-Weighted Assets (RWA).
 - RWA: adding up all the categories when multiplying their risk and debt.
 - So you could have \$100 million in RWA (basically debt) and to counter balance it you only were required to have \$8 million.

Role of Financial Regulation

- Basel II:
 - Popped the mortgage bubble
 - Basel I is what inflated the mortgage bubble
 - Started surfacing in 2005
 - Gave “wake-up” call to many banks

Impact of Economic Sectors

- Real-Estate Sector
 - Fannie Mae & Freddie Mac, government-sponsored enterprises
- Financial Sector
 - Connections
- Auto Sector
 - unemployment

Conclusion



- Glass-Steagall Act
 - Huge piece of regulation
- Financial Sector
 - Ties all sectors together
- Globalization
 - Technology
- Stimulus package

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