

Západočeská univerzita v Plzni

Fakulta filozofická

Bakalářská práce

2014

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Západočeská univerzita v Plzni

Fakulta filozofická

Katedra germanistiky

Studijní program Filologie

Studijní obor Cizí jazyky pro komerční praxi

Kombinace angličtina – němčina

Bakalářská práce

FINANCIAL CRISIS AND ECONOMIZING

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Vedoucí práce:

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Plzeň 2014

Prohlašuji, že jsem bakalářskou práci na téma

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Plzeň, duben 2014

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1. INTRODUCTION

The word crisis is heard every day, in the newspaper, on TV, radio, in people's everyday conversation, we are constantly being reminded of what kind of "crisis" we are in. All of us are directly or indirectly affected by the consequences that the financial crisis had caused. It is important as individuals to know the absolute most about it in order to prepare for the future and minimize the damage. This well-known crisis, also known as the global financial crisis, started prominently at the end of the summer of 2007, when the powerful bank Bear Stearns went bankrupt, and for the rest of the year the economic markets went down despite all efforts the government made to stop it. It resulted in the threat of the total collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In addition, it contributed to persistent high unemployment, failures in key businesses, decline in consumer wealth, real investment and output.¹ Today, it is generally considered to be the biggest crash since the Great Depression in the thirties of the last century. Since 2007 the crisis has spread into every corner of the world and influenced each sector of government, economics, politics, etc. People are touched by the consequences caused by this crisis every day and as of today all markets are in the position of great stagnation. Some of the leading experts predict the markets can go even lower, which makes the situation even more frightening.

First, I wanted to write about the financial crisis in the context of the EU, but with time I thought it would be much more interesting to compare two continents, i. e. North America, the continent where the crisis began, and Europe. While writing the thesis I decided to focus particularly on the United States compared to the Czech Republic.

¹ MIAO, Jianjun and WANG, Pengfei. *Banking Bubbles and Financial Crisis*. SSRN [online]. January 20, 2012. [retrived 2013-03-21]. Available at: <http://ssrn.com/abstract=2036575> or <http://dx.doi.org/10.2139/ssrn.2036575>

My bachelor thesis is divided into three main sections. The reasons of the crisis, followed by the consequences in general, are described in the first part of my thesis. The most important terms, which occur throughout the text, are found at the very beginning as well. The explanation of the unknown terms before the beginning helps the ordinary reader get a rough understanding. After, I analyze the reasons of the crisis followed with the background and short summary.

In the second section you can read about the world's recession and its influence on the world's economy. It also aims to depict the current situation in both countries, impacts of the crisis and the changes in inflation, unemployment and state deficits. This crisis is most likely not the deepest crisis in the history, but definitely brought the biggest changes in the minds of society. And because every cloud has a silver lining, there is a chapter called the positive impacts of the crisis, where I tried to find the positive impacts caused by the crisis.

The third part is primarily practical. It shows results of my own research, casting light on the impacts for ordinary people. Basically, I did research, questioned the respondents and consequently analyzed the answers. The conclusion is found at the last page.

1.1 Important terms

To fully understand the content of my bachelor thesis, it is essential to understand all specific economical terms which occur throughout the text.

1.1.1 Financial crisis

The term financial crisis describes a situation in which widespread assets suddenly lose their value. Financial crises often result in recessions. Recently, financial crisis around the globe have started to appear more frequently in the past decades, for example: Asian financial

crisis (1997), financial crisis in Mexico (1994) or the Icelandic financial crisis (2008), all critical situation demanding a solution.² The implements for rescuing the economy can be reelecting the government, changing the market, outbreak of war and many others.

1.1.2 Liquidity

Liquidity is the ability of a company or a debtor to meet obligations immediately. Liquidity degree of individual assets is given by their ability to be converted into disposable funds.³ Cash is the most liquid form of payment, real estate and goods on stock are regarded to be the least liquid.

1.1.3 Mortgage

A right of lien for real estate loans, a form of credit securing. In case a debtor does not pay the debt in time, a bank owns the right to confiscate the house and afterwards sell it, as it is stated in the contract. The contract expires when the debt is settled.⁴

1.1.4 Rating

Rating is a marking system of debt securities (bonds, debentures, notes) by bond rating agencies on the basis of the issuer's financial stability, earnings record, creditworthiness, etc. It is designed to inform interested parties who would need to know a history of an individual's credit history. The ratings are given to large-scale borrowers (companies or governments) and are an indication to the buyers how likely they are to be paid back. "It can also affect the amount that companies or

² FIALOVÁ, Helena a Jan FIALA. *Ekonomický výkladový slovník*, p. 58

³ Ibid, p. 84

⁴ Ibid, p. 96

government are charged to borrow money. If a country is deemed to have suffered a downturn in fortunes and its rating is lowered, investors may demand higher returns to lend to it, as it is judged a riskier bet."⁵ Rating agencies must be independent and credible. The most famous and oldest rating agency worldwide is Standard & Poor's. It is an American company, but earned a reputation of being highly reliable all around the world. With regard to the assessment grading, the rating agencies give appropriate marks to each company (e.g. an obligator rated "A-1" has a strong capacity to meet its financial commitments while obligator rated "SD" being the worst one).⁶

1.1.5 Insolvency

Insolvency stands for a debtor's inability to pay or inability to meet one's obligations due. It can reflect debtor's indebtedness or time discrepancy between incomes and expenses. An insolvent company or person can be brought to bankruptcy by a relevant legal procedure.⁷

1.1.6 Banking system

It is a system of banking institutions dealing with bank operations. There is usually a two-stage bank system, which represents the central bank together with the commercial banks. A central bank is a top institution appointed by the government, responsible for the money circulation control in the country. The objective of its activity is not to make

⁵ MARSTON, Rebeca. *What is a rating agency?*. BBC News [online]. February 25, 2013 [retrieved 2014-03-31]. Available at: <http://www.bbc.com/news/10108284>

⁶ *Standartandpoors* [online]. June 3, 2009 [retrieved 2014-04-01]. Available at: <https://ratings.standardandpoors.com>

⁷ DOWNES, John. *Dictionary of finance and investment terms*, p. 112

any profit, whereas the major aim of a commercial bank is to show a profit.⁸

⁸ FIALOVÁ, Helena a Jan FIALA. *Ekonomický výkladový slovník*, p. 15

1.1.7 Subprime mortgage

The definition of a subprime mortgage is a loan which is given to people who may not be able to pay the loan back (also called non-liquidity customers). Typically, subprime loans are for people with blemished or limited credit histories. These loans contain a higher rate of interest with less favourable conditions than prime loans, which compensates for increased risk.

1.1.8 Prime loan

By contrast the prime loan stands for a loan to a borrower who is regarded as being highly creditworthy, has no obvious financial difficulties and a good payment record, and is therefore very likely to repay the loan. Generally bank best costumers consist of large corporations.⁹

1.1.9 Federal Reserve System (FED)

Federal Reserve System, better known as the FED, is the central banking system of the United States. It was founded in 1913 by Congress, which intended to eliminate the severe financial crisis that had hit the American economy. The FED has both private and public components, and was designed to serve the interests of both the general public and private bankers. The structure is based on 12 regional reserve banks supervised by the Federal Reserve Board. It conducts supervision of the nation's banking system and ensuring the health of the banking system.¹⁰ It also performs to maintain the American economy stable and control the inflation. "For the federal government, the Reserve Banks act as fiscal agents, paying Treasury checks; processing electronic payments; and

⁹ DOWNES, John. *Dictionary of finance and investment terms*, p. 68

issuing, transferring, and redeeming government securities.”¹¹ Until 2012 the FED used to be strongly criticized for its non-transparency.

1.1.10 Investment bank

It is a special financial institution that provides comprehensive financial advisory and risk management services, helps to raise the capital, and also act as the client's agent in the issuance of securities to governments, corporations, and individuals. An investment bank primarily works on the investment markets helping big enterprises.¹²

1.1.11 Gross domestic product (GDP)

The gross domestic product is one of the macroeconomic indicators measuring the overall production performance of the economy. It is the total market value of all final goods and services produced within a country during some period, usually one year, expressed in monetary units.¹³ The GDP is measure by national government statistical agency and mirrors the country's standard of living.

¹⁰ The Federal Reserve System [online]. March 3, 2013 [retrieved 2013-04-16]. Available at: <http://www.federalreserve.gov/otherfrb.htm>

¹¹ The Federal Reserve System [online]. March 3, 2003 [retrieved 2013-04-16]. Dostupné z: http://www.federalreserve.gov/pf/pdf/pf_7.pdf

¹² Wikipedia: the free encyclopedia: *Investment banking* [online]. 2001- [retrieved. 2014-04-01]. Available at: http://en.wikipedia.org/wiki/Investment_banking

¹³ FIALOVÁ, Helena a Jan FIALA. *Ekonomický výkladový slovník*, p. 64

2. THE SUBPRIME MORTGAGE CRISIS

Every action has its own reasons and impacts, but providing mortgages to people with no liquidity brought financial trouble to the whole world. It all started with so called “subprime mortgages”, as I already mentioned.

One of the reasons of the background of the crisis breakout is undoubtedly the Community Reinvestment Act (CRA), enforced by Parliament in 1977. The Act requires that deposit-taking financial institutions offer equal access to lending, investments and services. Before the CRA, many bankers excluded low-income neighborhoods and people of color from their lending products, investment, and financial services – a practice known as “redlining”.¹⁴ This term was coined by the community activists, when they discovered the failure of banks to offer loans in low-income neighborhoods. This denial of loans was so geographically distinct, that it was easy to draw imaginary red lines on maps to mark the “bad” areas. The CRA encouraged the stop of all discrimination towards immigrants in the United States. Banks were indirectly pushed into providing money to customers without a steady income or title deeds. Households began to purchase solely on debt, and the financial institutions were allowing it to happen. One sector where consumers spent their money was on consumer goods, such as cars, electronic devices, etc. The other sector was the real estate market. The low mortgage rates sank to the absolute bottom. The mentioned subprime mortgages were provided to anyone, but what were their advantages? The low rates were steady only for first few years, but after, the bank has the right to increase their rates. These loans were actually not as

¹⁴ *The financial crisis inquiry report: final report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*. Official government ed. 2011, [cit. 2014-04-09], p.129

favorable as they were supposed to be. Hispanics, Asians and Afro-Americans who migrated to the USA with the vision of a better life often did not know the language properly or were less educated. Without a doubt, these people most likely overestimated their financial possibilities, but also were not able to read the “fine print” in their agreements with these financial institutions, which played an important role. Why? They simply did not understand (legal English is very difficult for an ordinary foreigner learning English) or they blindly trusted the banks. Unfortunately, these notes are usually the most important and the banks took advantage of their lack of language acknowledgment. If those people read the underline notes carefully, they would learn banks can increase their rates anytime they want. Housing costs lots of money in the U.S., and for young Americans it is their number one priority to own a place as they begin their career.

According to the *National Association of Realtors* in 2011 record 33 percent of all home buyers in the U.S. population can afford purchasing a new house by paying in cash.¹⁵ Among this 33 percent, are investors, wealthy individuals, foreigners capitalizing on the weakness in the U.S. real estate market and so called move-up buyers. This means that many of the purchasers had possession of a large amount of capital due to the fact they had recently sold their former home, so the figure 33 percent is actually higher than it should be. The rest of population lacking this kind of capital did not have any other option than applying for a loan.¹⁶ So people got blinded by the well known “American dream” of having a big house with a big yard and rushed irresponsibly into its purchase. While the

¹⁵ *National Association of Realtors* [online]. 2011 [cit. 2014-04-01]. Dostupné z: <http://www.realtor.org/research-and-statistics>

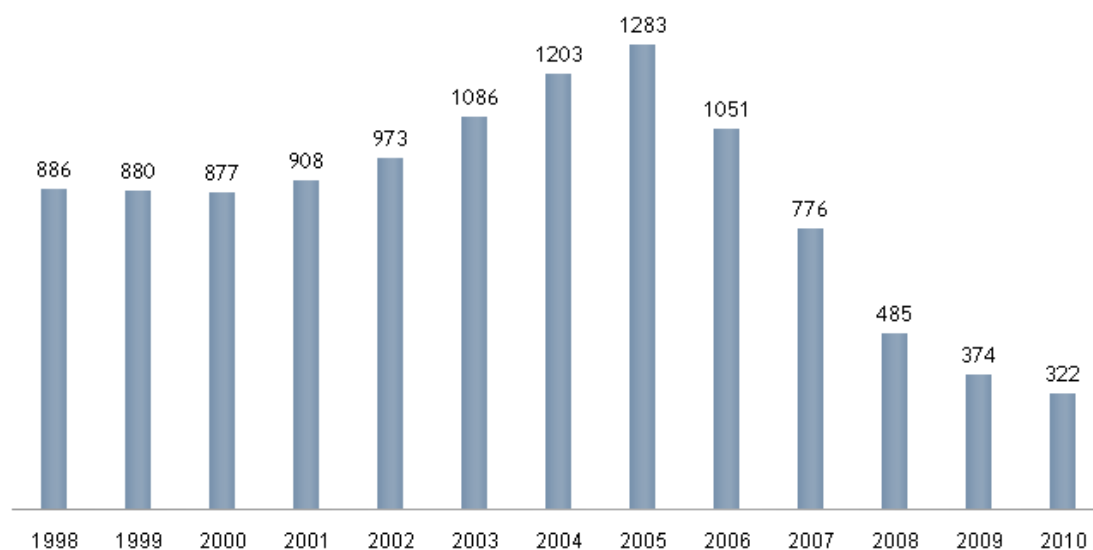
¹⁶ KHALFANI-COX, Lynnette. *How to buy a house in cash with no mortgage*. Aol Real Estate [online]. March 28, 2011 [retrieved 2014-04-01]. Available at: <http://realestate.aol.com/blog/2011/03/28/how-to-buy-a-home-in-cash-with-no-mortgage/>

prices for commodities kept climbing upward, more and more risky mortgages began to emerge. In the summer of 2013, the owner of a home inspection business Sean Ryan stated:

“There used to be times when a person applying for a mortgage had to put down a substantial deposit at first, but this is now a thing of the past. In the year 2005 an average applicant for purchasing a house was required to make a down payment of 2 percent of the total sum of the house and 43 percent of applicants did not put down any money at all. Let’s say that you were purchasing a new apartment for \$200,000. In order to secure a mortgage, you had to put down \$40,000 in cash in order for the bank to approve you. The down payment was a good sign for the lender and basically gave the bank some security in case you decide to walk away from the mortgage. The higher the down payment the less you have to pay off. But in 2005, if the selling price of a house was \$200,000, you were only required to pay \$4,000 for the down payment, and sometimes not even this sum, which seems so ridiculous to me.” (for the rest of the dialog see the transcript in the appendix).

As we can see from the graph below, until 2000 the market stayed stable. The amount of mortgages corresponded with the amount of the growth of American population. There was just a slight difference between each year. After 2000 the number of purchased houses rapidly grew. From 2000-2005 the amount of sold houses jumped up, which was mainly caused due to the easy accessibility of getting a mortgage. The year 2005 symbolizes the peak of purchased homes. Between years 2001-2005 the number of sold houses inflated to 9 percent, while the population grew only 1 percent. The downward trend rapidly started after 2005. One of the reasons of this was the overestimated price for houses.

Graph number 1: The number of purchasing new houses in USA



Source: Euroekonom¹⁷

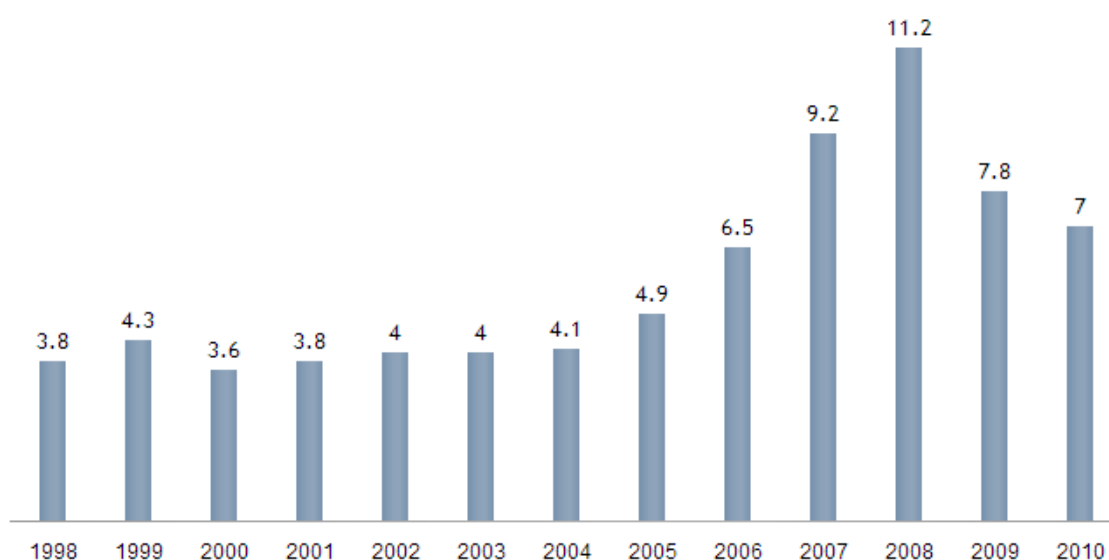
Another reason for the decreasing number of provided mortgages was the fact that in 2004 the Federal Reserve System (so called FED), increased the basic interest rate from one to three percent, and the next year the rise went up to a record four percent. This step strongly influenced the demand for mortgages, and in 2006 the market monitored the decline in closed contract of sale.

By increasing the basic interest rates, the people with the least means started immediately having difficulties to pay off their monthly installment. The debtors were left with two options. Either they could move out, let the bank confiscate their house and try to sell it, or continue with paying their monthly payments even though it meant for many of them taking another loan at another financial institution. The so called “second mortgage” covers the prime mortgage, also called the first mortgage, in the case of default. They guarantee that the prime mortgage will get pay

¹⁷ Ekonomický portál: Euroekonom [online]. 2010 [retrieved 2014-04-10]. Available at: <http://www.euroekonom.cz/grafy-svet-data.php?type=usa-prodanedomy-rok>

off.¹⁸ Soon or later, unfortunately for those people, the banks were allowed to confiscate their homes and were allowed to sell them after they were not able to make their monthly payments. The real estate market became overinflated with new houses for sale. In this situation, when the debtor is not able to pay their debt, the bank forecloses on the mortgaged property and covers their costs by selling the house. This principle works at a balanced market, but with a surplus of commodities banks started having difficulties selling the houses and cover their losses. They could no longer produce a profit.

Graph number 2: Time for selling a house (months)



Source: Euroekonom¹⁹

Graph number two provides the figures of the average time it takes to sell a home, starting with the late 90's. From 2004 to 2008, the average time it took rose from four to over eleven months. The time for selling a

¹⁸ FOSTER, John Bellamy a Fred MAGDOFF. *Velká finanční krize: příčiny a následky*, p. 34

¹⁹ Ekonomický portál. *Euroekonom.cz* [online]. 2010 [cit. 2014-04-10]. Dostupné z: <http://www.euroekonom.cz/grafy-svet-data.php?type=usa-dobaprodejedomu-rok>

house in 2008 was three times longer than before 2004. As we can see from graph number 2 the fact that banks or householders must have waited almost a year to sell their house shows us the gravity of the real estate market's flooding. The small decline since 2009 signals the market's slow recovery.

The third reason behind the crisis outbreak were the real estate brokers. It has been revealed throughout the years they did not bear any responsibility for their closed contracts. American real estate brokers are paid according to the number of contracts they close every month, so it is obvious they tried to close as many contracts as possible, no matter what it could cause in the future. Many of them certainly had to anticipate, some of their clients may not being able to meet liabilities to the bank. Brokers with the vision of higher bonuses kept striking deals no matter what, and the crisis continued to expand.

2.1 Fannie Mae and Freddie Mac

These two abbreviations stand for Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Both names bear the word "national", which shows the establishment is a part of the American government. Fannie Mae and Freddie Mac are loan agencies. They aimed to encourage the housing market by providing affordable housing. Fannie Mae was founded in 1938 during the Great Depression as part of the New Deal.²⁰ This corporation borrowed money from domestic and foreign investors and subsequently rendered to banks. The profit was gained from the difference between the interest the bank provided money for and the interest the bank borrowed money.

In 1968 the government created Freddie Mac as the competitor to Fannie Mac in order to prevent monopoly over the mortgage market. These corporations had already expected difficulties in the 80', when the United States broke out in a banking crisis. These government-sponsored corporations represent an irreplaceable role to the real estate market because of the large number acting for approximately 40 percent issued mortgage contracts. Their objective is to provide enough liquidity in the nation's mortgage finance system. The giants purchased loans from private banks, which then transform these loans into mortgage-backed securities, and guarantee the timely payment to outside investors. This puts all responsibility on the bank's shoulders, and since a bank does not have to worry about holding these credits on "their balance sheets, they have more capital available to give out loans to other creditworthy borrowers."²¹ What made the mortgages a particularly attractive investment was the fact that Fannie Mac and Freddie Mac overtook the responsibility in the event of default. The investors did not have to worry about credit risk and since both corporations provided these loans they became very vulnerable.²² Both of them were deeply rooted in the risk of subprime mortgages moreover making bad business decisions after the housing crisis in 2007. The companies began to show insufficient capital. Also, unlike most private investment firms, Fannie and Freddie had only one line of business (residential mortgage finance). This means the companies did not have other forms of an income source to cover for their

²⁰ STŘÍŽ, Martin, *Financial and economic crisis: causes, consequences and the future*, p. 56

²¹ GRIFFITH, John. *7 Things You Need to Know About Fannie Mae and Freddie Mac*. Centre for American Progress [online]. September 6, 2012 [retrieved 2014-04-10]. Available at: <http://www.americanprogress.org/issues/housing/report/2012/09/06/36736/7-things-you-need-to-know-about-fannie-mae-and-freddie-mac/>

²² FOSTER, John Bellamy a Fred MAGDOFF. *Velká finanční krize: příčiny a následky*, p. 44

loses when home prices began to fall. The size and the interconnection with the market made the U.S. government come rushing to help. Experts agree, if the government did not create Fannie Mae and Freddie Mac, the housing collapse would go even further. The move is positively perceived by the economists but not by the taxpayers. After all it was them, who have yet to pay the bailout in total of 137 billion dollars (this figure might go up to 200 billion dollar by the end of 2015) without being given much to say.²³ There is a good message for them, in 2012 the government-sponsored enterprises had net incomes of 17.2 (Fannie Mae) and 16.8 (Freddie Mac)²⁴ billion dollars. Hopefully this is the sign of a stable recovery.

2.2 Bear Stearns and Lehman Brothers

These two names represent investment banks, whose decline caused severe damage and caused confusion in the world market in 2008. Both became victims of the financial crisis, but there are also reports of mismanagement within the company and bad economic decisions. The firms were headquartered in New York City, but well known globally. With the collapse of the housing market, Bear began facing very dramatic financial travails in June 2007: the firm announced that two of its hedge funds were significantly invested in subprime mortgages were in trouble. In March 2008, Bear Stearns, the nation's fifth largest investment banking firm, was battered by what its officials described as sudden liquidity squeeze related to its large exposure to

²³ MORGENSTON, Gretchen. Mortgages' Future Looks Too Much Like the Past. *The New York Times* [online]. 2013 [retrieved 2014-04-10]. Available at: http://www.nytimes.com/2013/03/24/business/fannie-mae-freddie-mac-and-the-same-old-song.html?pagewanted=all&_r=1&

²⁴ Ibid.

devaluated mortgage-backed securities.²⁵ The cost of debt surpassed the profit from investments and the bank simply lacked the cash and could not meet its commitments. The bank became on the edge of bankruptcy. The high possibility of Bear Stearns going bankrupt caused great panic and concern around the global market. At this point the FED appeared at the scene. The government of the United States decided to support this company and gave it a helping hand.

In March 2008, the Federal Reserve System provided an emergency loan to try to avert a sudden collapse of Bear Stearns. Unfortunately the company could not have been saved. The FED made a decision of selling Bears shares to JP Morgan Chase, one of the major commercial banks. JP Morgan Chase agreed on buying the shares for the price of 2 dollars per share, even though its pre-crisis value was around 55 dollars per share, and it saved the company. Another bank, which got into financial difficulties, was Lehman Brother. This bank was known as one of the most successful American investment banks ever, therefore its bankruptcy created widespread panic all over the world. Lehman declared its insolvency on 15. September 2008. This was actually the second major decline in the history of the bank. The first crisis hit the bank in 1984, but was saved by American Express group. At that point of time the bank disposed of 30 billion dollars, but its assets were estimated for incredible 600 billion dollars. The company invested a giant sum in the subprime mortgage market, but Lehman was also rumored to get into financial difficulties due to its mismanagement. The top management (former head chief officer Richard Fuls, vice president Ian Lowitt and chief executive officer Christopher O'mearra) were blamed for manipulating the audit and

²⁵ Dealbook. *The New York Times* [online]. [cit. 2014-04-12]. Dostupné z: https://www.google.cz/?gfe_rd=cr&ei=VkdJU9K_Jqjc8gfnoB4#q=what+really+killed+bear+stearns

annual reports about the bank's situation. In simple terms, they were lying about the amounts that were coming in and out of the company. The American government was expected to save Lehman Brothers as they saved Bear Stearns but in this case the Federal Reserve System made the decision that Lehman Brothers importance does not reach the importance of Bear Stearns and its fall will not threaten the American economy. "Up to that point, it had been assumed that governments would always step in to bail out any bank that got into serious trouble: the US had done so by finding a buyer for Bear Stearns."²⁶

Another reason for letting the bank go bankrupt was the unwillingness to pump more taxpayer's money into banks-rescue. This decision had very negative consequences. After letting Lehman Brother fall, the American public began to believe in the total collapse of the banking system. Up until the time when the Lehman Brothers went bankrupt, the notion that all banks were "too big to fail" was very prominent, but after that happened each bank was viewed as highly risky. Within a month of their collapse, the threat of a domino effect throughout the global financial system forced the western government to inject large amounts of money into these banks to prevent them from collapsing. Although this lat input of money into these banks did indeed save them, it was too late to prevent the entire global economy from going into a deep free fall, resulting in the recession we are currently in. Consumer and businesses became much less confident, and credit flows to the private sector were halted.²⁷ The American government did not seem to have this troublesome situation under control.

²⁶ ELLIOT, Larry. *Global financial crisis: five key stages 2007-2011*. *The Guardian* [online]. August 7, 2011 [retrieved 2014-04-12]. Available at: <http://www.theguardian.com/business/2011/aug/07/global-financial-crisis-key-stages>

²⁷ Ibid.

2.3 Globalization

The current globalization trends significantly contributed towards financial and economic crisis. As the banks all over the world began to be linked and interconnected with each other, the mistrust in the global market caused banks to stop trusting each other. Nobody knew how big the losses were. Banks did not know which of them were involved in the subprime mortgages or what bank afflicted the financial difficulties. There were cooperation between banks on a daily basis, but banks tried to avoid this afterwards. The market suddenly appeared to lack liquidity. The necessary reaction of central banks (FED, Bank of England,..) were so called “emergency loans”. Banks would obtain these loans after applying and proving its short-term lack of liquidity. The emergency loans solved the problem of lack of liquidity. But on the other hand, a bank applying for such a loan was perceived as a bank with serious financial difficulties. Other banks stopped cooperating with it and even big European banks got into bad ways. Famous bank Northern Rock could be used as an example. Even though this bank belonged to the “healthy” banks, it got in troubles. The problem was that apart from other mortgage banks, Northern Rock did not derived money from the client’s deposits, but used the form of short-term shares. Almost 73 percent of the bank’s financial needs were financed through this way. When this market “ran dry” Northern Rock ended up at the edge of existence. At the end of September 2007, crowds gathered in front of the bank demanding their money.²⁸ This phenomenon is called “bank run”. It happens when a large number of customers suddenly withdraw their deposits because they believe that the financial institution is, or might become, insolvent. A common misconception in people’s mind is how much capital these banks

²⁸ KOHOUT, Pavel. *Finance po krizi: důsledky hospodářské recese a co bude dál*, p. 67

have, and how liquid their capital is. If someone makes a deposit into a bank, that amount does not stay in the bank. Banks lend out much of it to borrowers or purchase interest-bearing assets, such as government securities, to try and make profit. During a standard bank run, when a bank needs to come up with necessary cash, a bank will rapidly sell their assets, which are often at a very low price, and liquidate loans, and often this threatens a bank's overall safety.²⁹ A good example of how little suffices to cause a bank run happened in China. A small rural lender in eastern China turned down a customer's request to withdraw 200,000 yuan (\$32,200). Although bankers and officials claim it to be false, the rumor whether it was true or not created a run on a bank as the story made its way from person to person, depositors, random bystanders and even employees³⁰. Of course it could be sometimes just a gossip released by the rival bank in order to damage the bank's good reputation or somebody's wrong judgment, but who would not be scared to forfeit one's lifelong savings in the case of a bankruptcy.

September of 2007 could be considered as the true beginning of the financial crisis, because the crisis spread from America into Europe. The mortgage crisis itself would never create such damage if there was no globalization.

2.4 Summary

The content of the previous section is briefly described on the following page. There were many reasons causing the financial crisis. None of them could harm the global economy itself, but the mixture of all

²⁹ History.com: *Bank Run* [online]. September 8, 2010 [retrieved 2014-04-13]. Available at: <http://www.history.com/topics/bank-run>

³⁰ RUWITCH, John. *How rumor sparked panic and three-day bank run in Chinese city*. Reuters [online]. March 26, 2014 [retrieved 2014-04-13]. Available at: <http://www.reuters.com/article/2014/03/26/us-china-banking-idUSBREA2P02H20140326>

of them together helped create the major crisis the world's population faces today. The largest contributor to the crisis would probably be the Federal Reserve System, which should have foreseen the incoming threat. Not only did they hold the basic rates too low for too long, but also not saving Lehman Brothers (the fourth biggest investment bank), caused an alarming panic within the market. Another culprit is the banking system. How was it possible to get a loan without proper verification from the applicant's financial situation? How was it possible, that brokers were paid according to the number of contracts they closed? Is it not obvious they would try to sell as many homes as possible in order to see personal profit? Over 95 percent of submitted applications were based on false figures about his/her income. Globalization also played an important role. As mentioned, globalization does not only bring positives but it has also its negatives. If the bank did not cooperate with each other globally, the market would not be this vulnerable. Most likely, the crisis would remain in the United States and with time would have been suppressed. We can not point fingers at who is to blame, but it all leads back to the most natural yet overlooked reason, human mentality. People's greedy personalities wanted simply more and more, with no regards to the consequences. With debts, people purchased houses, cars, holidays and tech devices without any regard. This raises the question, how would the economic situation be if society was aware of correctly managing their finances? No surprise governments nowadays are talking about implementing financial education at schools.

3. THE THREAT OF RECESSION

Where is the border between crisis and recession? What are their differences? These questions will be answered in the following section.

In 2007, there already appeared to be questions and concerns about a possible recession. These thoughts became justifiable. The difference between crisis and recession is that a financial crisis is not as serious of a phenomenon. A financial crisis comprises of “market crashes, bursting housing bubbles, currency crisis or sovereign defaults.”³¹ The financial crisis causes panic in the market, but does not result in big changes in the real economy, although it could trigger the recession. At this point people fear the possibility of a recession or worse, a depression. Economic recession is a part of a business cycle (there are four stages in the cycle: boom, recession, depression and expansion), when the economy monitors slowdown. The macroeconomics indicators such as gross domestic product (GDP), employment (in 2008 lost 16 000 employees their jobs), business orders decline, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise.³²

In the year 2009 President Obama and his team of economic experts prepared a plan appropriating 775 billion dollars into the American economy. At the time, these economists thought this would help cure the problem, but this “injunction” did not bring any recovery.

In an article of America's daily report webpage *Economy in Crisis* was stated: “As the Treasury and Federal Reserve began pouring hundreds of billions of dollars into the financial market in the final quarter

³¹ FOSTER, John Bellamy a Fred MAGDOFF. *Velká finanční krize: příčiny a následky*, p. 108

³² FIALOVÁ, Helena a Jan FIALA. *The concise dictionary of economic terms*, p. 64

of 2008, there were many who worried these actions would result in inflation.”³³

Time will tell whether this measurement taken will ultimately be the right move. Anyway, in order for the government to be able to finance its costs (such as educational system, infrastructure, health service, army,..), they have to borrow money due to the of lack money they already released into circulation. In the current situation companies and individuals suffer from the difficulties to get a loan, which is one of the main reasons of recession. But if governments all over the world keep borrowing more and more, the classical effect of displacing the private debts with national debt would occur. Even though the efforts initially intended to be helpful at the beginning, after some time society viewed it as worsening the situation. If we look at it from the point of responsibility, the national debt is worse than private debt. It is sad that the people managing their finances responsibly bear the burden (charge) together with the frivolous society.

The only good thing about recession is that it cures inflation. The politicians, who control the state budget, fear getting deeper in the recession. They usually try to stimulate the economy through lowering taxes, spending on social programs and ignoring the national deficit. When a central bank has the option to choose between preventing the banking crisis and abiding the goals of lowering or stimulating inflation,

³³ Economy in Crisis: America's economic daily report. *The New Depression* [online]. 2011 [retrieved 2014-04-13]. Available at: www.economyincrisis.org/the-new-depression

naturally bank chooses the crisis prevention. This is the story, how the U.S. debt breached a record 16 trillion dollar in 2012.³⁴

4. IMPACTS ON THE CZECH AND U. S. ECONOMY

4.1 Situation in the Czech Republic

The crisis in the Czech Republic did not strike the banking system as bad as other EU countries, but seriously harmed the states with the voluminous import of Czech goods and services. The Czech economy is a small, open economy strongly dependent on exporting. The domestic demand has never been strong, so it would be useless trying to stimulate the Czech economy by distributing money into the circulation. Any form of distributing money into economy while 80 percent of all expenses end up abroad would be wasting money. Germany, our biggest trader, was strongly afflicted by the financial crisis the market demand slashed, thus the Czech economy started falling into ruin. The country has always been very industrial, as regards the percentage share, industry stands at 35% (62.3% services, 2.8% agriculture).

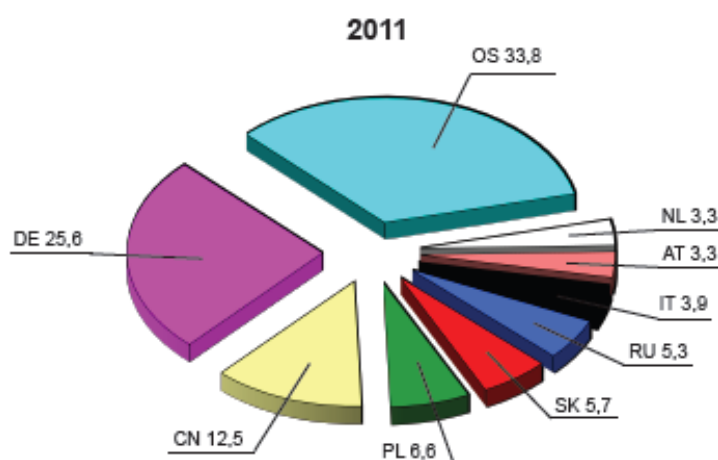
The main pillars of the Czech industry are engineering and machine engineering, mining, chemistry and foodstuff production, followed by the energy industry, civil engineering and consumer industry. Unfortunately exactly those industrial sectors (except for the foodstuff production sector) are the most vulnerable in the time or recession. The automotive industry, which employs over 120 thousand people, was afflicted the most.³⁵ In order to survive, Czech companies were forced to adapt to the situation

³⁴ BARBIERY, Rich a Jeanne SAHADY. It's official: U.S. hits debt ceiling: America s debt. CNN [online]. January 2, 2013 [retrieved 2014-04-13]. Available at: <http://money.cnn.com/2012/12/31/news/economy/debt-ceiling/index.html>

³⁵ Ministerstvo průmyslu a obchodu [online]. 2014 [retrieved 2014-04-13]. Available at: <http://www.mpo.cz/cz/prumysl-a-stavebnictvi/prumysl-politika-EU/archiv.html>

and make necessary changes, such as investment reduction, cutting down on expenses, finding new markets and increasing the efficiency. Some of them took measurements to shorten the working hours (from 5 down to 3-4 working days, or taking holidays off) to avoid lay-offs. The graph portrays the states the Czech Republic deals with the most. A large portion of Czech products are exported to our neighbor Germany (25.6%) and other EU countries (France, Slovakia). However, experts believe there is great potential in the territories where the Czech exports formed a small percentage. They say the Czech producers should pay special attention to maximize the demand for their products in these territories. These countries (Russia, China, Vietnam) are supposed to be more resistant than EU members at the times of crisis.

Graph number 3: Exports by selected countries (share in %)



AT	Rakousko	Austria
CN	Čína	China
DE	Německo	Germany
FR	Francie	France
IT	Itálie	Italy
PL	Polsko	Poland
RU	Rusko	Russian Federation
SK	Slovensko	Slovakia
OS	Ostatní země	Other countries

4.2 European Union and Euro

In 2007 the European Union proved to remain rigid and resistant to the first-round effects of the banking crisis in the US. The Euro achieved to be rather stable versus the dollar. Unfortunately, the second-wave effects conflicted damage.³⁶ The EU challenges the excessive deficit in the state budget. As a consequence of escalating deficit, the Euro was also set at stake. The forecast in 2014 says, while the US economy began to recover, the EU economy will still be in a deep hole.

Euro currency rate versus Czech crone since 2005

2005	2006	2007	2008	2009	2010	2011	2012
29,78	28,34	27,76	24,94	26,45	25,29	24,59	25,14

Source: ČNB³⁷

As we look at the chart above, the biggest reduction set happened in 2008. This weakening of the Euro was influenced by the financial crisis in the United States. After 2009 Euro recuperated from the shock of the previous year, but fell again the next year.

The EU goal for next few years is lowering the budget deficit. The chart below represents the annual deficit of all EU member states in 2012. It exposes the governments who have worked hard on trying to limit their countries deficit, as well as the countries, who have not successfully been able to minimize their deficit problem. It is still unknown, why some of the EU members experienced such a drastic decline in their budget deficit,

³⁶ DVOŘÁK, Pavel, Tomáš PILAŘ a Iva REŽNÁ. *Fiskální důsledky finanční krize*, p. 63

³⁷ Česká národní banka [online]. April 21, 2013 [retrieved 2014-04-15]. Available at: http://www.cnb.cz/cs/financni_trhy/devizovy_trh/kurzy_devizoveho_trhu/denni_kurz.jsp

but some people believe those states altered their real financial situation in order to pass the EU quotes. The struggling indebted countries are Portugal, Ireland, Italy, Greece and Spain, briefly called the PIIGS. The PIIGS need to revise their state budgets and draw up a budget concentrating on reducing their current expenditures. Otherwise, they will not be able to compete with other EU states and their economic growth will not progress. This oppressive position would bring many other unfavorable conditions such as a rise in unemployment, emigration, criminality, protests or even war.³⁸ The highest ratios of government debts to GDP of 2012 were unsurprisingly recorded in Greece (150.3%), Italy (126.1%), Portugal (117.5%) and Ireland (111.5%), the lowest in Estonia (7.3%), Bulgaria (16.5%) and Luxembourg (20.9%). The Czech Republic is to be found in the middle (43.6%).³⁹

³⁸ PEČINKOVÁ, Ivana. *Euro versus koruna: rizika a přínosy jednotné evropské měny pro ČR*, p. 143

³⁹ Eurostat [online]. January 2, 2013 [retrieved 2014-04-15]. Available at: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

Government debt by Member State (2013)

European Union (27)	Currency	Government debt in € (mil.)	Debt as % of GDP
Belgium	euro	382,922	102.5
Bulgaria	BGN	12,386	16.5
Czech Republic	CZK	1,678,249	43.6
Denmark	DKK	837,425	46.7
Germany	euro	2,169,354	82.8
Estonia	euro	1,197	7.3
Ireland	euro	179,718	111.5
Greece	euro	300,807	153.3
Spain	euro	804,615	76.0
France	euro	1,832,599	91.0
Italy	euro	1,982,239	126.1
Cyprus	euro	14,939	83.3
Latvia	LVL	6,393	43.0
Lithuania	LTL	44,157	40.4
Luxembourg	euro	9,148	20.1
Hungary	HUF	22,168,478	78.3
Malta	euro	5,008	76.3
Netherlands	euro	411,170	68.2
Austria	euro	228,922	75.1
Poland	PLN	891,756	57.0
Portugal	euro	198,136	117.5
Romania	RON	210,101	35.6
Slovenia	euro	17,334	48.1
Slovakia	euro	35,307	50.1
Finland	euro	99,640	51.7
Sweden	SEK	1,322,054	37.3
UK	GBP	1,318,256	86.0

Source: Eurostat ⁴⁰

⁴⁰ Eurostat [online]. 2013 [retrieved 2014-04-15]. Available at: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

4.2.1 Inflation in the Czech Republic

In the event of recession, as mentioned before, governments resort to releasing more money into the circulation in order to ensure liquidity. This input of extra capital results in a brief price jump, and for a while consumers will get less goods and services for the same amount of money as before. Inflation belongs to macroeconomic indicators indicating an imbalance in the economy and is measurable by price index numbers such as the consumer price index or the gross domestic product. Moderate inflation is sometimes beneficial for economic growth. When consumers expect prices to rise, they are much more likely to buy at that point rather than waiting. This will increase demand and help.⁴¹ The inflation rate was relatively low in 2013, because the Czech national bank tried to increase the demand for the Czech products.

“The inflation target set in terms of headline inflation of 2% with effect from January 2010 until the Czech Republic's entry to the euro area. As before, the Czech national bank strives to ensure that actual inflation does not differ from the target by more than one percentage point in either direction.”⁴²

In the Czech Republic, the rate of inflation is measured by the Czech Statistical Office. The degree of the annual inflation rate lies at 1.4 percent (2013), which is the lowest since 2009. In comparison with the previous year (2012), the rate grew by 1.6 percent.⁴³

⁴¹ FIALOVÁ, Helena a Jan FIALA. *Ekonomický výkladový slovník: [kompletní přehledná příručka pro studium a manažerskou praxi]*, p. 116

⁴² Česká národní banka [online]. 2013 [retrieved 2014-04-16]. Available at: http://www.cnb.cz/en/monetary_policy/inflation_targeting.html#c2

⁴³ Český statistický úřad [online]. 2013 [retrieved 2014-04-16]. Available at: http://www.czso.cz/csu/redakce.nsf/i/mira_inflace

4.2.2 Unemployment in the Czech Republic

The unemployment rate is one of the indicators the Czech government must battle and improve upon. According to the Ministry of labor and social affairs, the unemployment rate has climbed up to almost 600 thousand jobless people, while the job offices register only 35,178 vacancies. By March 2013 the Ministry of labor and social affairs registered altogether 596,833 job seekers (289, 501 female and 311, 601 male), 59,633 newcomers, which was more than in March of the preceding year, and 39,546 school leavers.⁴⁴ Unemployment benefits are received by a mere 120, 030 unemployed people. One job vacancy gets a share of 17 applicants. The Czech employment office takes measurements to improve the situation on the Czech labour market in the form of retraining programs or community services.⁴⁵

Unlike in the US, the Czech people are not willing to change the place of living in order to find a job. Therefore the regional discrepancies in unemployment remain high, with registered unemployment ranging from very low rates in the largest cities (the lowest unemployment rate is in Praha – východ 3.5%) and surrounding areas to rates around 20 percent in northern districts (Most 13.5%).⁴⁶ With the unemployment rate at 8.2 percent, the Czech Republic must challenge the formation of new job opportunities in a way of attracting foreign investors and companies.

⁴⁴ Ministerstvo práce a sociálních věcí [online]. 2013 [retrieved 2014-04-16]. Available at: <http://www.mpsv.cz/cs/>

⁴⁵ Ibid.

⁴⁶ MÜNICH, Daniel a Štěpán JURAJDA. *Labour market in the Czech Republic: economic and policy developments during first five-years in the European Union*, p. 27

4.3 The Situation in the United States

The US has the world's largest and strongest economy. It is the world's third largest exporter, leading importer, has a single currency and is a relatively closed economy. Being blessed with an unusual abundance of natural resources (fertile land, crude oil, natural gas, coal, coastline), mild climate and geographical location, the country is almost self-sufficient. Their biggest exports consist of machines, engines, food and beverages, electronic equipment, oil, automotive vehicles and aircrafts. Their biggest trading partners are the European Union, China, Canada, Mexico and Japan. Just like in other countries, the exports play an important role in pulling the US economy out of recession.

While the Czech Republic focused on supporting the most vulnerable public sectors at the times of recession, the United States put the money into rescuing the collapsing financial market. However, the bailout of 16 trillion US dollars to save the banking system led to enormous debts. The Federal government plans to take in \$3,034 trillion for 2014. The budget deficit is estimated to be \$744 trillion.⁴⁷ Almost one third of the federal budget covers the interest of the deficit. For the record, the US government spends \$121,067 per second and borrows \$52,162 each second. This enormous figure of money borrowed is leading to a seemingly uncontrollable rise in the federal deficit (in 2012 by \$2,078,278 every minute).⁴⁸

⁴⁷BBC [online]. October 16, 2013 [retrieved 2014-04-14]. Available at: <http://www.bbc.com/news/business-24541140>

⁴⁸ KESSLER, Glen. *Obama's claim that '90 percent' of the current deficit is due to Bush policies*. The Washington Post [online]. September 26, 2012 [retrieved 2014-04-14]. Available at: http://www.washingtonpost.com/blogs/fact-checker/post/obamas-claim-that-90-percent-of-the-current-deficit-is-due-to-bush-policies/2012/09/26/e9bfbcd0-077e-11e2-a10c-fa5a255a9258_blog.html

The worst year for the American banking sector was in 2009. The number of companies that went bankrupt grew by 38 percent, which means more than every third company in the country went bankrupt. This was reflected in the significant decrease in tax revenues, which dropped to its lowest level since 1963, seriously worsening the fiscal situation not only of the federal government, but of individual states.⁴⁹ Most of them were small or middle size companies, but these firms employ over 35 percent of the US labour force and play an important role in the domestic market.

During his eight years in office (2001-2009), President George Bush was criticized and disliked by many Americans for his \$2 trillion deficit. In 2008, his then-candidate President Barack Obama stated that Presidents Bush's deficits were irresponsible and unpatriotic. But the deficit has grown by over \$5 trillion under President Obama's reign!⁵⁰ This is a very alarming reality for the American citizens. Does this mean there is nothing to be done? Or does it simply reflect the nature of the US recent voting public? Nobody agrees with budget cuts because everyone wants to live in a prosperous country with minimal taxes. But if people try to ignore the deficit over and over and vote for the left-wing parties, how will the next generation live? Today's population should bear in mind somebody will have to pay off the debts and it might be the next generation – our children. The American society should take a responsible approach and start to tighten their belts so to speak. Unfortunately, there is no change in sight.

⁴⁹ DVOŘÁK, Pavel, Tomáš PILAŘ a Iva REŽNÁ. *Fiskální důsledky finanční krize*, p. 31

⁵⁰ KESSLER, Glen. Obama's claim that '90 percent' of the current deficit is due to Bush policies. The Washington Post [online]. September 26, 2012 [retriever 2014-04-22]. Available at: http://www.washingtonpost.com/blogs/fact-checker/post/obamas-claim-that-90-percent-of-the-current-deficit-is-due-to-bush-policies/2012/09/26/e9bfbcd0-077e-11e2-a10c-fa5a255a9258_blog.html

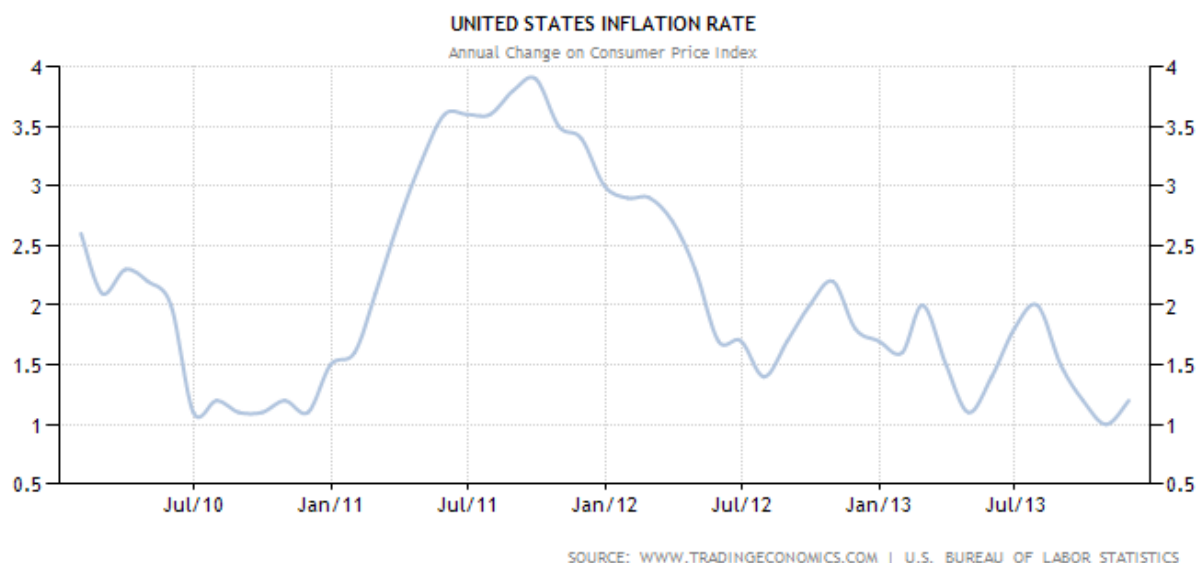
4.3.1 The inflation in the United States

The inflation rate in the United States is measured by the Bureau of Labor Statistics (BLS), which is a federal agency strictly nonpolitical. The Federal Reserve targets 2-3 percent inflation rate, but the current inflation rate is considerably under this level. In 2013, the US annual inflation accelerated 1.8 percent compared with the preceding year. The US inflation has been held back in recent years by sluggish economic growth and high unemployment, making it difficult for retailers and other businesses to increase prices. On the one hand, the low prices are enabling the American consumers make the most of their slim wages, but on the other, less for the businesses and the state.⁵¹

The chart below records the significant raise at the turn of year 2012-2013 and rapid jump in July 2012. The repeated increase after 2012 raised hopes of a recovering the US economy, but since then the inflation rate remains stagnant below the 2 percent target line. The Federal Reserve is challenged to find a way to get out of this vicious circle in order to revive the American economy.

⁵¹ Bureau of Labour Statistics [online]. December 16, 2013 [retrieved 2014-04-22]. Available at: <http://www.bls.gov/bls/inflation.htm>

Graph number 4: Inflation rate in the United States



4.3.2 Unemployment in the United States

Out of the 315 million of the US population, the labor force represents only 155.5 million employees. The increase in the unemployment rate hit the US similarly as the rest of the world. According to the Bureau of labor statistics the annual unemployment rate dropped down to 7.3 percent although the FED targets only 6.5 unemployment rate. In March 2013, there were 10.4 million unemployed individuals, which represented the addition of 169,000 jobs in comparison with the previous month.⁵² Although this figure could appear optimistic, the pace of job creation remains slow. The number of jobs needed to be created in order to return the US economy to pre-recession health is an astonishing 7.9 million jobs! Among the major unemployed groups are men (7.0

⁵² RUSHE, Dominic. *US unemployment rate drops to 7.3% amid sluggish economic recovery*. The Guardian[online]. September 6, 2013 [retrieved 2014-04-22]. Available at: <http://www.theguardian.com/business/2013/sep/06/us-jobless-numbers-economic-recovery>

percent), women (6.4 percent), Afro-Americans (13.1 percent), Hispanics (9.1 percent) and Whites (6.3 percent). The levels of employments and unemployment and the size of the nations labour force fluctuates regularly over the course of a year, resulting from many different variables such as major holidays, weather, even the opening and closing of the schooling systems.⁵³ Especially in the United States, the effect of such seasonal variation can be very large. In 2013, job growth averaged 182,000 jobs per month. The job gains occurred in retail trade and wholesale trade, while employment declined in information. However, this figure is not trustworthy, because it is influenced by the fact that many people got discouraged by the difficulty of finding a job. They stopped seeking a job and were no longer counted as unemployed.

According to statistics there were 917,000 discouraged workers in December 2013 and if those non-workers would actively look for a job, the unemployment rate would grow up to 10.3 percent.⁵⁴ The US government should find a way to create more jobs in form of attracting the foreign investors or encouraging the demand for domestic products and services.

⁵³ The Bureau of Labour Statistics [online]. February 12, 2013 [retrieved 2014-04-22]. Available at: <http://www.bls.gov/bls/newsrels.htm#OEUS>

⁵⁴ Ibid.

4.4 The positive impact of the crisis

The crisis has surely brought many changes to the today's society. The overwhelming majority of them are indeed very negative, but some of them may be beneficial for the future generations. They can learn from the lessons that were presented during this crisis, and do everything they can to avoid making the same mistakes. Although it is difficult to talk about the positive points while the whole world faces such gloomy times ahead, many believe there have been a lot of good that came from this current crisis. The full impact of the crisis is not yet over, but here are some of the possible positive effects that the financial crisis has created.

Repairing the financial market – The financial crisis clearly showed the holes in national and local financial governance. Now, there is an opportunity to repair the broken financial market and prevent the future collapses. Society learned that the way the principals on which the financial market worked were not sufficient. This door can also be closed and we can try to find a new way, where there are no booms and busts in the future. After all, if one is looking for the solution, it is always to be found in the past.

Cleansing the market – The crisis undoubtedly wiped out all the “unhealthy” business from the market. We can say that only the strong, well-managed business survived those testing times.

Increase in competition – This positive effect is agreeable, because only the consumer profits; for the producer however, this would be considered a negative effect. Difficult circumstances push the business to think in a creative way. In order to adapt to various situations and gain or maintain the customers, the businesses are forced to try to stay leg up on their rival companies. This could be reflected in improving their services or the quality of their products, cutting down on prices, coming up with new product, intensification in the branch, etc. If consumers lack

money during the hard times, they are very careful about spending it. They examine the options and compare. The business owners are aware of the fact that whoever offers the best deal, will survive and prosper.

Transparency in public financial management – As the society began to cut down on their cost, the governments were expected to use the same attitude. People wanted to know how their money is being spent and where it all goes. By making this information as accessible as possible for the public interest, it is guaranteed that the money is not being wasted on vain purposes or unnecessary expensive public procurements. Moreover, it prevents corruption.

The ecological effect – In addition to the financial crisis, the human race is also experiencing an ecological crisis in form of climate change, environmental pollution, deforestation, etc. The economical crisis, which slowed down the production and consumption for at least a decade, happened to temporally help to treat the ecological crisis. Thanks to the reduction of growth of the overall consumption of energy and materials, the Earth can take a small break for next few years. If people lack money, they buy less and they unintentionally save our natural recourses like water, air, land, etc. Environmentalists claim that if the economical crisis did not occur the devastation to the environment would have had much more accelerated effects.

5. PUBLIC OPINION SURVEY

The last part focuses on the public opinion and views of ordinary people on the financial crisis and how it affected them personally. Half of the respondents come from the Czech Republic and half from the United States, as there was the opportunity to make research in both countries. The exact representation is 25 respondents from the Czech Republic and 25 from United States. The selection was carried out in the form of random walk, namely in Pilsen (Czech Republic) and Hartford (Connecticut, United States). The addressed people were asked 5 simple questions and their responses consequently analyzed.

5.1 Questions

1. *What is your current occupation?*

Student	5/50
Maternity leave	3/50
Unemployed	1/50
Employed	29/50
Retired senior citizen	12/50

According to the research the majority of the respondents are employed, followed by students. This figure could be influenced by the surveyor's environment. Positive indicator of this question is only one unemployed participant, it means the financial crisis did not have a

significant impact on their career. On maternity leave were 3 women, and they all said they want to return to work in a few years.

2. *How are you doing today financially, compared to how you were before the crisis?*

Better	3/50
About the same	20/50
Worse	27/50

Almost one third of the respondents answered “about the same” compared to the pre-crisis time, but 27 respondents answered their financial situation has worsened since 2008. Remarkably, out of these 27 respondents, only 3 come from the Czech Republic, the rest represents the American side. This shows the real difference between the impact on the US and Czech economy. The fact, that three respondents chose the answer “doing better” than before crisis, could be influenced by getting a better job, paying off the mortgage or selling some unnecessary property.

3. *Do you know anyone who was affected by the financial crisis severely? If yes, what did this person lose?*

No, I do not.	6/50
House	6/50
Car	8/50
Job	15/50
Savings	5/50
Partner	10/50

It is worth to mention the nationality of the respondents in this question. Only ten out of “yes” answers were monitored in the Czech Republic and the rest 34 in the States. So we could deduce that the American society feels the consequences that this crisis has brought stronger than the Czech society. It could indicate the possibility that the country’s economical state is less vulnerable and more resistant than the US, or that the real crisis has not yet spread into the so called heart of Europe.

As we can extract from the chart above, people usually experienced the consequences of crisis in a form of losing a job. The loss of a job sometimes leads to the loss of a house or a car, if the debtor is not able to meet his or her obligations. Losing a job is also linked with depletion of one’s savings, because one must continue paying for various commitments. Having financial difficulties often leads to leaving a partner as ten people answered, they know somebody who lost or left their partner due to the financial troubles. All six respondents who chose the

answer “losing a house” come from the United States. They exemplify what happened in the US in 2007 when the mortgage crisis broke out. On the other hand, nine of fifteen “losing a job” answers stand for participants from the Czech Republic, most likely due to the strong dependency of Czech export. The downturn in demand for Czech goods and services resulted into higher unemployment rate than in the US.

5. *How old were you purchasing your first own house? If you do not have your own property, do you live with your parents or do you rent a place?*

I do not own a place, I rent a place.	3/50
I do not own a place, I live with my parents.	1/50
I own a place, I was between 21-27.	2/50
I own a place, I was between 28-35.	32/50
I own a place, I was between 36-45.	11/50
I own a place, I was between 46-55.	1/50
I own a place, I was older than 56.	0/50

The age ranges were chosen intentionally, as some respondents could feel unpleasantly to impart their age. As we could see the overwhelming majority of respondents answered they own a place and most of them were at the age of 28-35 purchasing their first house. This reality is most likely influenced by the facts that most people start to set up family around the age of thirty or they start their career (start earning money). Two answers “I own a place, I was between 21-27” represent the

lucky men, who either inherited a big amount of money or their parents paid for the house. As it was mentioned before, the housing in the US is the number one priority. This is reflected by the fact that only one person older 46 purchased his/her first house. We could assume this respondent got divorced and therefore purchased his/her first house this late.

6. *Do you think we will start coming out of this recession within the next decade?*

Yes, I do.	21/50
No, I do not.	18/50
I do not know.	11/50

The results to this question were pretty spread out. There was almost the same amount of people to say “it will” as “it will not”, and quite a few respondents that were not sure. It reflects how each person may have a completely different outlook on the future. One would think there would be more yes’s and less no’s, but it looks like there is a good amount of people with skeptical view of the future.

5.2 Short summary

The public opinion survey is expected to be independent, impartial, objective and unbiased. However, there is a possibility of respondents giving a distorted picture of the situation. The facts such as addressing the respondents in good neighborhoods, in the morning, on Saturday, could have played an important role. We could expect that if the survey was carried out in the evening on a working day in a bad neighborhood, the outcome would appear differently.

The results show the average respondent of this survey, which can be summarized in the following points:

- our average respondent comes either from the United States or Czech Republic
- was between 28-35 purchasing his/her first house
- is employed
- knows somebody, who got affected by the financial crisis in the form of losing a job
- is optimistic about the soon recovery

6. CONCLUSION

The forecast for 2014 does look friendlier for the American and Czech economy than it was for 2013. As we could learned from this thesis the economical crisis is not over yet and most likely will not be in the next decade. The objective of this work was to provide a comprehensive overview of the global financial crisis. It also focuses on the meaning of recession in the context of consequences of the financial crisis, current situations in both countries and research of impacts on society. According to my personal opinion, these goals were accomplished. The sources of the thesis were mostly found on the internet. The financial crisis is a contemporary topic changing every day, so using printed sources would not bring the current overview. Moreover, there is a small variety of books written about this subject.

The United States and the Czech Republic are both facing big challenges in order to improve their markets, maintaining their living standards and keep the ability to compete with other foreign countries. Unlike United States, the Czech Republic was pretty resistant to the impacts of crisis. Unfortunately, being almost absolutely dependent on exporting abroad negatively influenced the Czech economy. On the other hand, the United States faces a collapse in the banking system and it is hard to say, whose current position is more preferable. Since 2009 the world officially has been trying to defeat the crisis but so far without any noticeable success. This brings me back to the idea of implementation school subjects that would focus on correct managing finances and individual's possibilities. As the human race progresses, do we also become poorer? As I look around, more and more people seem to be heavily indebted. Individuals, companies, states - everybody. It is on our next generations to handle the impacts that our greedy population caused, use those lessons and teach their kids how to manage their finances correctly, and never forget to always stay positive. Because behind every cloud is a silver lining.

7. ABSTRAKT

MLEZIVOVÁ, N. Finanční krize a úspory. Bakalářská práce. Plzeň: Fakulta filozofická ZČU v Plzni, 56 s., 2014

Klíčová slova: Subprime mortgage, recession, inflation, unemployment

Předložená práce je zaměřena na problematiku současné finanční krize. V první části je popsána hypoteční krize v USA a její dopady na světovou ekonomiku. Zároveň uvádí významy některých ekonomických termínů objevujících se během práce. Druhá část se věnuje recesi a problematice nárůstu státních dluhů, popisuje ekonomickou situaci v obou zemích a snaží se poukázat i na pozitivní dopady krize. V poslední části se práce snaží zachytit reálnou situaci obyvatelstva obou zemí pomocí vlastního výzkumu. Cílem celé práce je podání uceleného obrazu o finanční krizi.

8. ABSTRAKT

MLEZIVOVÁ, N. Financial crisis and economizing. Bachelor thesis. Pilsen: University of West Bohemia, 56 p., 2014

Key words: Subprime mortgage, recession, inflation, unemployment

The presented work focuses on the issue of the current financial crisis. The first part describes the mortgage crisis in the United States and its impacts on the global economy. It also explains few economic terms, which occur throughout the text. After, the work points out the issue of public debts and describes the economical situation in both countries. There is also a chapter dealing with the positive impacts of the crisis. Finally, the work tries to show the real situation of population through a public survey. The main objective is to provide a comprehensive depiction of the financial crisis.

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11. APPENDIX

Interview with Sean Rayen

Me: "Sean, what does your company do?"

Sean: "Our business is based on home inspections, we provides services such as structural and mechanical inspections, well and water analysis, water yield or water recovery analysis, septic system evaluation, radon testing (water, air), asbestos testing and termite inspection. Briefly, our company helps the buyer to protect himself from buying a overpriced property, we provide our client with price advisory and the condition of the property."

Me: "Have you noticed any significant changes after 2008? I mean, do people buy less houses or more?"

Sean: "There used to be times when a person applying for a mortgage had to put down a substantial deposit at first, but this is now a thing of the past. In the year 2005 an average applicant for purchasing a house was required to make a down payment of 2 percent of the total sum of the house and 43 percent of applicants did not put down any money at all. Let's say that you were purchasing a new apartment for \$200,000. In order to secure a mortgage, you had to put down \$40,000 in cash in order for the bank to approve you. The down payment was a good sign for the lender and basically gave the bank some security in case you decide to walk away from the mortgage. The higher the down payment the less you have to pay off. But in 2005, if the selling price of a house was \$200,000, you were only required to pay \$4,000 for the down payment, and sometimes not even this sum, which seems so ridiculous to me."

Me: "Thank you for your time."

Sean: "You are welcome."