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Subject: Re: The financial crisis for dummies

Posted by [EvilWhiteDragon](#) on Mon, 13 Oct 2008 10:24:37 GMT

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It's horribly flawed.

Because it doesn't depict the reality. The financial crisis started when people couldn't pay the interest of their mortgage. This was caused by two things:

1. banks giving out responsible high loans, thereby taking huge risks themselves.
2. decreasing growth of the (American) economy, which caused people to get fired or to have to pay more for food.

The result of that (and a lot of weird non-transparent ways of creating more money)\* was that banks started to go bankrupt, if it wasn't for the money injections many governments are giving them.

Another cause of banks going bankrupt is that people are scared of their bank going bankrupt and decide to get their money out of the bank. That will cause liquidity problems for the bank, and could indeed make it go bankrupt.

Basically the later thing is a "self-fulfilling prophecy". That is what happened to the Iceland bank "ICESAVE" it went bankrupt because UK and Spanish people decided to take their money out of that bank. And by doing so indirectly screwing over the Dutch government which now needs to protect its own citizen, by guaranteeing up to 100.000 Euro.

\*Banks could loan 5 Million dollars with an outstanding 500.000 dollar mortgage. In that way they were basically creating money. That is also one of the reasons the USA has had a continuous economic growth, which is basically built on fried air.

Another reason for the consistent growth is the increasing loans the USA has in foreign countries. Basically China and Europe (mainly) are paying for the "American way of living". This will stop at some point at which the USA will be not much more than a third world country.

I bet I will get flamed for saying that the USA economy is built on fried air.

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