

Using NewsHour Extra Feature Stories

STORY

Big Banks Fail, Signaling More Economic Troubles Ahead 09/16/08

http://www.pbs.org/newshour/extra/features/us/july-dec08/banks_9-16.html

Estimated Time: One 45-minute class period with possible extension

[Student Worksheet](#) (reading comprehension and discussion questions without answers)

PROCEDURE

1. WARM UP

Use initiating questions to introduce the topic and find out how much your students know.

2. MAIN ACTIVITY

Have students read NewsHour Extra's feature story and answer the reading comprehension and discussion questions on the student handout.

3. DISCUSSION

Use discussion questions to encourage students to think about how the issues outlined in the story affect their lives and express and debate different opinions.

INITIATING QUESTIONS

1. What are some of the signs the U.S. economy is struggling right now?

2. What is the New York Stock Exchange? What happens there?

3. What is a loan?

READING COMPREHENSION QUESTIONS – [Student Worksheet](#)

1. What happened to Lehman Brothers on Sept. 15?

ANSWER

Lehman Brothers, a 158-year-old investment bank, filed for bankruptcy on September 15 after an intense weekend of negotiations with the federal government and other financial institutions to save the company.

2. What happened to Merrill Lynch?

ANSWER

Merrill Lynch, an independent investment services company, was also in serious trouble and ended up selling itself to Bank of America.

3. How did the companies' troubles affect the market?

ANSWER

The combined news led to a 500-point drop Monday in the Dow Jones industrial average, a measure of the 30 largest public companies in the United States. It was the biggest drop since the stock market reopened after the September 11, 2001 terrorist attacks. According to the Washington Post, about \$700 billion in value evaporated from the stock market during one day.

4. What is the Dow Jones industrial average?

ANSWER

The Dow Jones industrial average is a measure of the 30 largest public companies in the United States.

5. How did the government respond and how was that different from how it treated mortgage

companies Fannie Mae and Freddie Mac?

ANSWER

Treasury Department head Henry Paulson decided not to use taxpayer money to help Lehman Brothers, even though just weeks earlier, the government helped the two largest mortgage companies, Fannie Mae and Freddie Mac.

6. What is a subprime loan?

ANSWER

As the prices of homes in the United States continued to rise, doubling from 2000 to 2006, banks and mortgage companies took bigger risks by giving big home loans to people without proof of their financial situation or asking for little or no down payment.

7. What role did subprime loans play in the Lehman collapse?

ANSWER

These "subprime" loans were then bundled together and then sold to big investment banks like Lehman Brothers. When home prices started plummeting in 2006, many borrowers could not pay their loans or sell their house and were forced to walk away, leaving banks with worthless mortgages and valueless properties.

DISCUSSION QUESTIONS (more research might be needed)

1. Did the government make the right decision by not rescuing Lehman? Why or why not? Is it fair that other companies were bailed out by the government earlier this year?

2. What are some loan requirements that would have helped prevent some of the subprime crisis and helped prevent people from getting loans they couldn't pay off?

3. How does the economy rank in importance for you among the election issues? What would you like the next president to do about the economy?

4. Using the site <http://www.marketwatch.com/quotes>, pick one of the companies in the article and find out what its stock was worth on Sept. 16, 2008. Then, using the historical quotes tab, find out how much that stock was worth on the same date in 2006 and 2007. Do the same for any company of your choice. Compare what you see between the two companies' stock values.

Extension Activity

Have students write a 300-500 word essay on this topic providing clear examples. Send your completed editorial to NewsHour Extra (extra@newshour.org). Exceptional essays might be published on our Web site.