

Using NewsHour Extra Feature Stories

STORY

Financial Worries, Credit Crisis Are Felt Around the Globe

10/10/08

http://www.pbs.org/newshour/extra/features/us/july-dec08/crisis_10-10.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 is the New York Stock Exchange?

2. Do other countries have their own stock markets? Give examples.

3. What is credit?

READING COMPREHENSION QUESTIONS – **Student Worksheet**

1. What happened to the U.S. stock market this week?

ANSWER

U.S. stocks plummeted to five-year lows, affecting half of all Americans who have some sort of savings invested in stocks.

2. Name an example of how the U.S. financial problems are affecting other countries.

ANSWER

Iceland is on the edge of bankruptcy, Japan's main stock index had its worst week in history and the International Monetary Fund predicted most countries will not have any economic growth at least until the middle of 2009.

3. Why is credit important?

ANSWER

Credit feeds the economy by enabling people and companies to borrow money or make up the difference until more cash flows in. Governments also borrow money, and banks borrow money from each other.

4. How did housing cause the credit crisis?

ANSWER

The root of the problem is the U.S. housing market. There are a massive number of bad home mortgages (loans), which has led to a complete loss of confidence in this market.

5. What is a sub-prime loan?

ANSWER

Many banks and mortgage brokers gave loans to people for homes far out of their budget range. These types of loans are called "sub-prime" loans, and there were few regulations on lenders granting these loans.

6. What happens when a lender can't pay their mortgage?

ANSWER

When people can't make their monthly payment, they "default" on their loan and the lender takes ownership, or "forecloses" on, their house. Banks and lenders lost the interest revenue that would have come from those loans and now are stuck with a devalued home.

7. What happened to banks that bought up bundles of sub-prime loans?

ANSWER

Some of these investment banks borrowed lots of money to make these purchases and were then unable to pay that money back, causing some, like the investment bank Lehman Brothers, to collapse.

8. What does the \$700 billion rescue package passed by Congress give the government the right to do?

ANSWER

Congress passed a \$700 billion rescue package at the beginning of the month that gives the Treasury Department the power to buy up those bad mortgages and other bad assets held by troubled financial institutions.

DISCUSSION QUESTIONS (more research might be needed)

1. Why is a financial crisis that began in the United States now affecting the rest of the world?

2. Name some ways that the problems with foreclosed homes could have been prevented.

3. Do you think the U.S. government should start buying up the bad mortgages? How would that affect the economy? Who would benefit?

4. Are coordinated efforts and intervention by world central banks a good idea? Why or why not?

5. Make a prediction: what do you think will happen next? Are we at the bottom of the market? What would another depression look like 80 years after the Great Depression?

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.