Economic Rehabilitation and Reform Committee (ERRC):

2008 Financial Crisis

Boston College High School Model United Nations

XXXIII

Chair: Madoc Robinson '26

Co-chair: Jack Fanning '26

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I. Letter from the Chair

Dear Delegates,

My name is Madoc Robinson, a junior at BC High. I would like to welcome you to BC High Model United Nations 2025. Outside of Model UN I do robotics and volunteering here at BC High. Outside of school I enjoy watching sports and DJing. I hope this is a productive and fun committee where you all learn a lot. This will be a challenging committee but I know you will all do very well!

I started Model UN in my freshman year of high school. I have learned so much, met so many people, and had a lot of fun doing it. I have had the privilege of going to LA, San Francisco, and Washington DC. These have been very formative conferences that have taught me so much about Model UN and developed skills I utilize in all aspects of my life. I have been able to co chair once and chair last year, which have given me experience that I bring to this committee. Lastly, if you have any questions or concerns, don't hesitate to email me at John Fanning or Madoc at Madoc Robinson.

Good Luck!

Madoc Robinson '26

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II. Letter from the Co-chair

Dear Delegates,

My name is Jack Fanning, a junior at BCHigh, and the co-chair of this committee. I would like to welcome you all to BC High MUN XXIII. As a first time co-chair, I am excited for this opportunity to stand aside and watch as you all create resolutions for this important matter. While this committee revolves around a particularly serious and complex issue, the most important thing I want for all of you is to have fun.

Similarly to Madoc, we both started Model UN our Freshman year, participating in several opportunities both locally and across the country since then. Although this is my first BC High MUN conference, I have enjoyed multiple conferences throughout Massachusetts, and have been fortunate enough to attend BruinMUN my freshman year, and SUMUN last year, both of which were held in California. Participating in these conferences has deepened my understanding of what it means to be a part of Model UN, and has allowed me to grow as both a public speaker and leader. The people I have been able to meet, and the places I have visited with Model UN have shown me the importance of contributing to a club like this, and I am excited to see you all in March. Lastly, if you have any questions or concerns, don't hesitate to email me at John Fanning or Madoc at Madoc Robinson.

Have fun!

Jack Fanning '26

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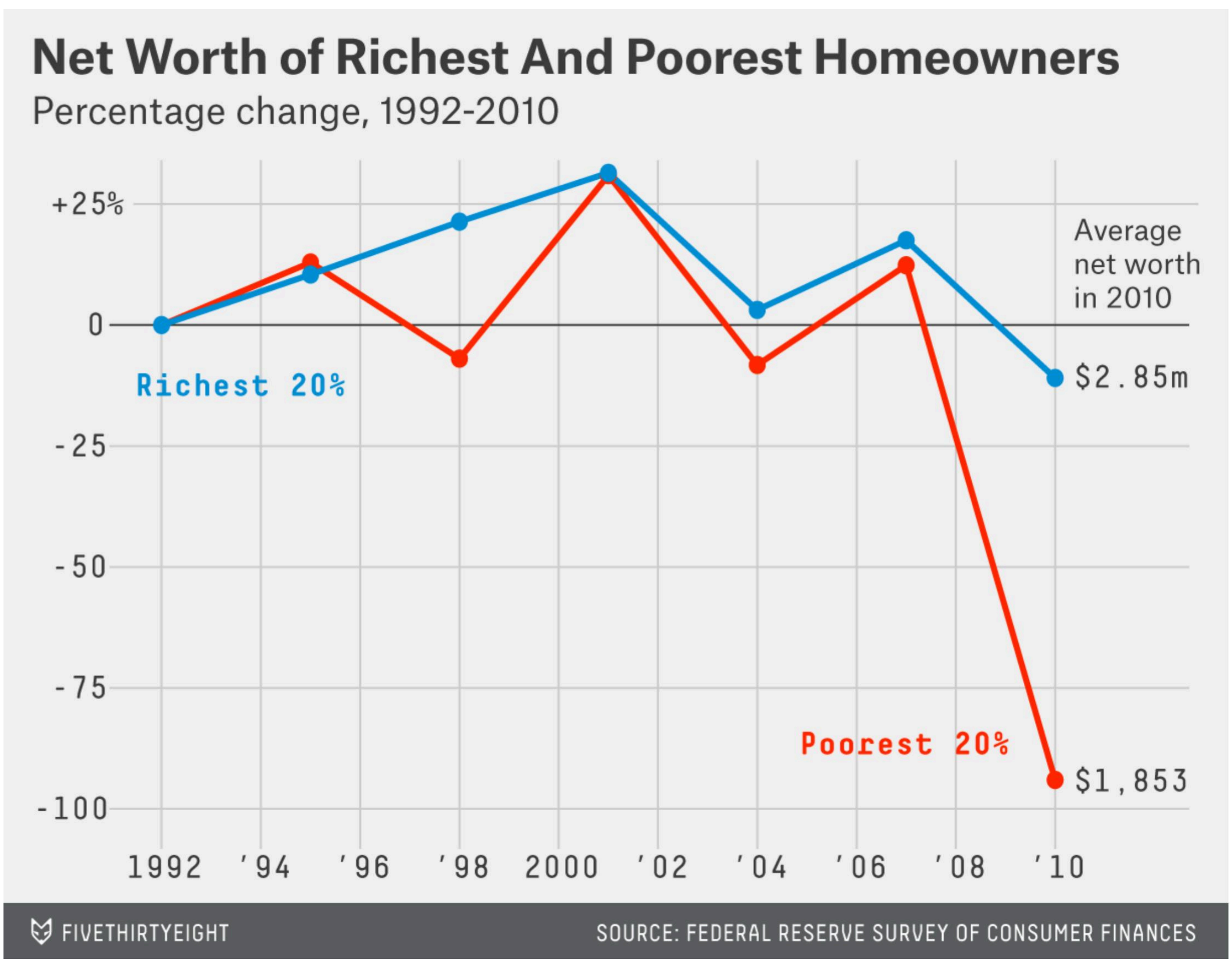
III. Economics and Important Terms to Know

Housing Bubble: A "bubble" in the economy occurs when the price of an asset (something which contains economic value) eventually exceeds the true intrinsic value. The price of an asset can grow so much that it is beyond the typical price and does not agree with its fundamental value. Starting in the 1990's, the price of housing across the U.S. started increasing, leading to the formation of the housing bubble.



Subprime Mortgages: Subprime mortgages are housing loans that are granted to borrowers that have low, impaired credit scores or even no credit score at all (Amadeo). This includes granting loans to borrowers who have been bankrupt, have low income, or have low credit scores. Subprime mortgage rates typically carry a higher interest rate than that of a primary mortgage. This occurs to compensate for the higher risk which the lender is taking on (Amadeo).

Derivatives: Derivatives are secondary securities (a tradable asset) that derive their value from primary securities. Even though they are based on assets, owning a derivative does not mean that the investor also owns the underlying asset. Derivatives are often contracted due to its well-known benefit of hedging risks (Fernando).

Credit Default Swaps: Credit default swaps are financial derivatives that allow investors to offset their credit risk with that of another investor (Hayes).

IV. Committee Background

This is a committee that took place in 2008-2009, just after the financial crisis. This committee will seek to recover and prevent such events from happening in the future.

What was the 2008 Financial Crisis?

The 2008 financial crisis was the worst financial crisis since the Great Depression globally. This led to a loss of two trillion dollars from the global GDP. 3.1 million Americans ended up filing for foreclosure and unemployment shot up to 10 million Americans. The stock market crashed drastically.

What Caused the Crisis?

Deregulation:

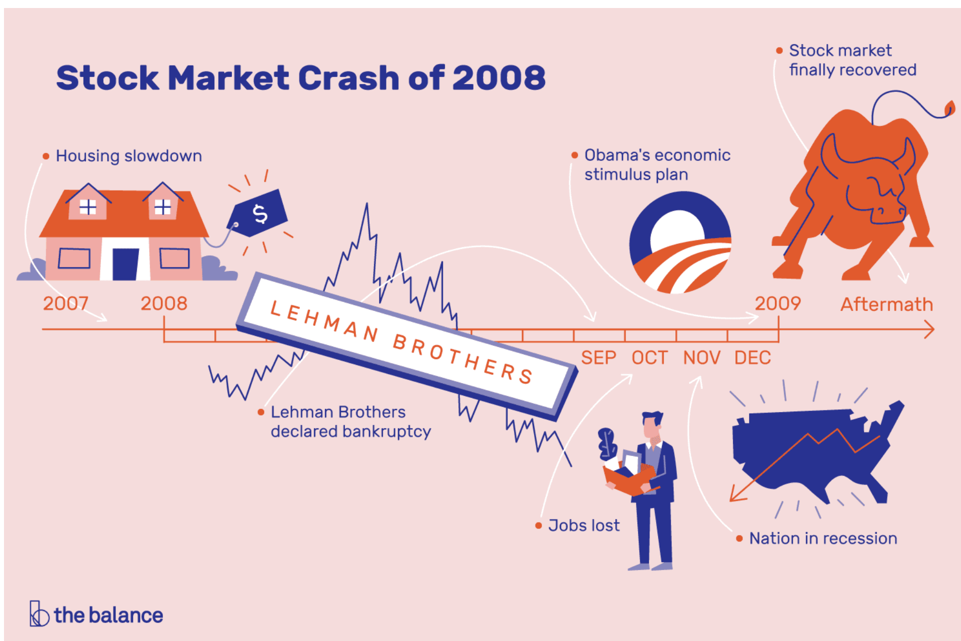
The recession was caused by a multitude of factors, all accumulating and leading to the crash. The first factor was deregulation prompted by high economic performance during the 1980s and 1990s. As a result, financial institutions and the government began to deregulate the financial system. Larger banks began buying smaller banks leading to a decrease in the banking industry, leaving power with the few large banks. One example of this was the Financial Services Modernization Act of 1999 which allowed for mergers between commercial banks, stock brokerage companies, and sometimes insurance companies. In 2000 the Commodity Futures Modernization Act was passed, deregulating swaps and derivatives. This caused the risky derivatives market to be valued at 600 trillion by 2008.

Housing Bubble:

In 2006 housing prices began to go down. This caused subprime borrowers couldn't pay their loans. Since the housing prices went down these borrowers could not sell their homes for the price they got it at. This caused people to default on their mortgages which decreased the worth of mortgage backed securities. Mass amounts of people began to collect their insurance on these bonds which almost bankrupted financial institutions like American Investment Group. 10 million Americans ended up defaulting on their mortgages and many people and banks lost money through mortgages backed bonds.

Stock Market:

Investors began to short the stock market in light of the real estate prices dropping. Financial institutions began to collapse so the US government flooded these institutions with money. This led to inflation. September 15 2008 Lehman Brothers, a top investment bank, filed for bankruptcy. American Investment Group filed for bankruptcy shortly after. Americans and investors began to distrust these institutions and the stock market. People began to pull their money out of the market causing stocks to crash.



Organizations To Work With:

- The Federal Reserve-Has power to control interest rates, controls monetary policy for the country. Has the ability to crackdown on subprime lending.
- Securities and Exchange Commision(SEC)-Can monitor fraud in companies. Oversees the exchange of securities. Ensure fairness in the market.
- The US Treasury-Control national banks and currency.
- Federal Deposit Insurance Corp (FDIC)-supervises financial institutions to ensure trust from the public.Develop stability in the financial system.

V. Positions

Henry Paulson - United States Secretary of Treasury

Ben Bernanke- Chairman of the Federal Reserve

Sheila Bair- Chair of the Federal Deposit Insurance Corporation

Timothy Geithner- President of the Federal Reserve Bank of New York

George W Bush-President of the United States

Barack Obama-President elect of the United States

Christopher Cox-Chair of US Securities and Exchange Commission

Richard Syron- CEO of Freddie Mac

Daniel Mudd-CEO of Fannie Mae

Richard Fuld-Lehman Brothers CEO

John Mack- Morgan Stanley CEO

Llyod Blankfein-Goldman Sachs CEO

Jamie Dimon-JP Morgan Chase CEO

Ken Lewis- Bank of America CEO

Kathleen Corbet-President of Standard and Poors

Ron Paul-US House representative

Cynthia McKinney-US House representative

Masaaki Shirakawa-Governor of the Bank of Japan

Mervyn King-Governor of the Bank of England

Jean-Claude Trichet-President of European Central Bank

VI. Questions to Consider

1. How do you deal with the banks and financial instruments the recovery of the economy?
2. How do your solutions impact the organization that your character works for and does this benefit the financial situation within your organization?
3. Can financial a problems be mitigated before it further impacts international markets any more? Should it be mitigated?
4. Is it more essential to focus on short-term recovery within the economy (such as unemployment and high inflation) or long-term restructuring of the U.S. financial system? How can you create policies which take both of these situations into consideration?

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