



10 Economic Lessons from the Financial Crisis

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Morpeth School***

See the Disclosure Appendix for the Analyst
Certification and Other Disclosures.

Lesson no 1 – Don't Trust your Broker

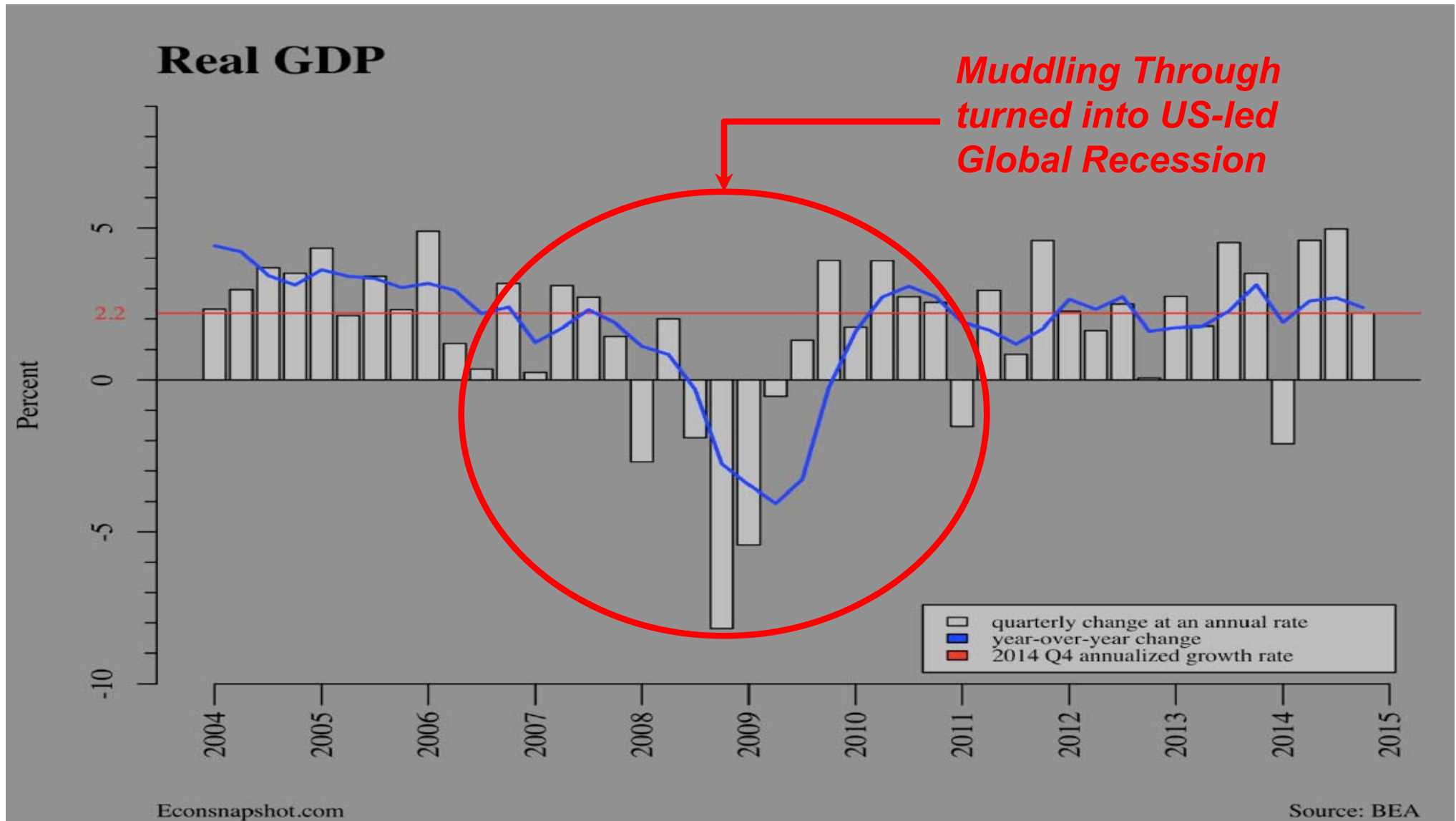


5 Year Forecasts* – still muddling through?

(Annual % change in real GDP, inflation and nominal GDP)

		2007	2008	2009	2010	2011
US	Real GDP	2.2	1.3	1.6	2.5	2.7
	Inflation	2.9	4.0	2.1	2.0	2.0
	Nominal GDP	5.1	5.3	3.7	4.5	4.7
Euro area	Real GDP	2.6	1.4	1.2	2.0	2.0
	Inflation	2.1	3.0	1.8	1.8	1.8
	Nominal GDP	4.7	4.4	3.0	3.8	3.8
Japan	Real GDP	1.7	1.7	1.4	1.6	2.0
	Inflation	0.0	0.8	0.3	0.5	0.6
	Nominal GDP	1.7	2.5	1.7	2.1	2.6
Global*	Real GDP	3.8	2.9	2.8	3.2	3.5
	Inflation	3.0	4.3	3.0	2.5	2.5
	Nominal GDP	6.8	7.2	5.8	5.7	6.0

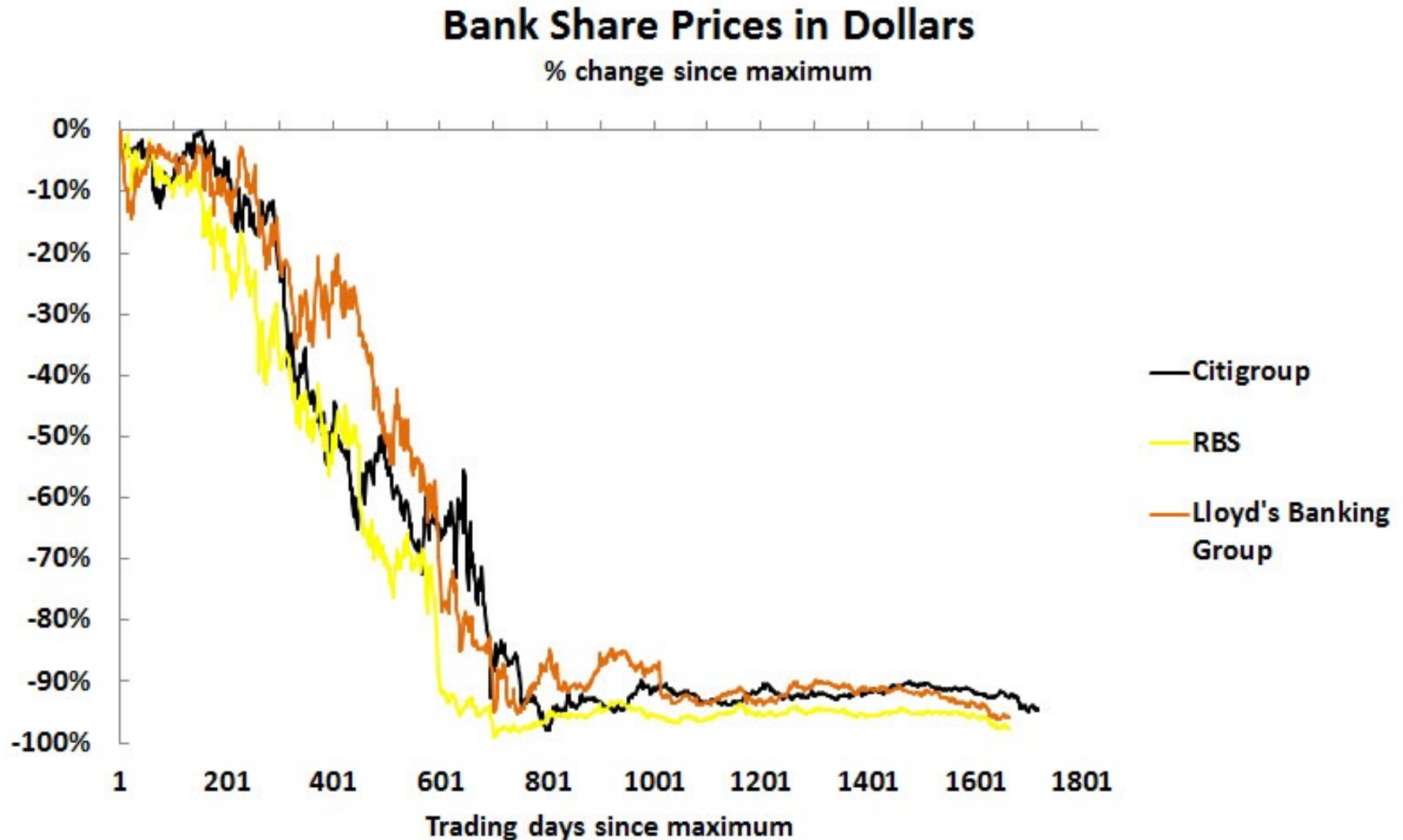
GDP Growth - what actually happened



Lesson no 2 – Diversify your portfolio & don't get paid in your company's stock



Lesson no 2 – Diversify your portfolio & don't get paid in your company's stock



Source: Calculated from Yahoo Finance data

Lesson no 3 – Market Failure (i) Don't let lawyers run a bank

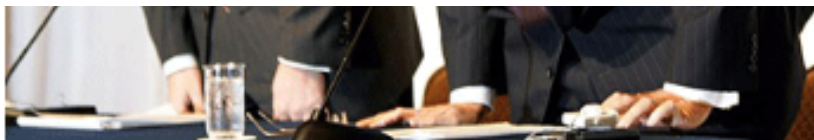
The Telegraph

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Shares Questor Market Report FTSE 100 Currency Commodities

Citi chief payoff: \$30m, office, car and driver



Email

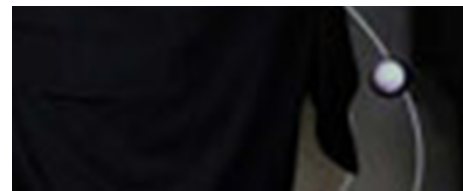


Chuck Prince, pictured on the right, in Tokyo

The truth about smoking
– it saves the public purse
a lot of money

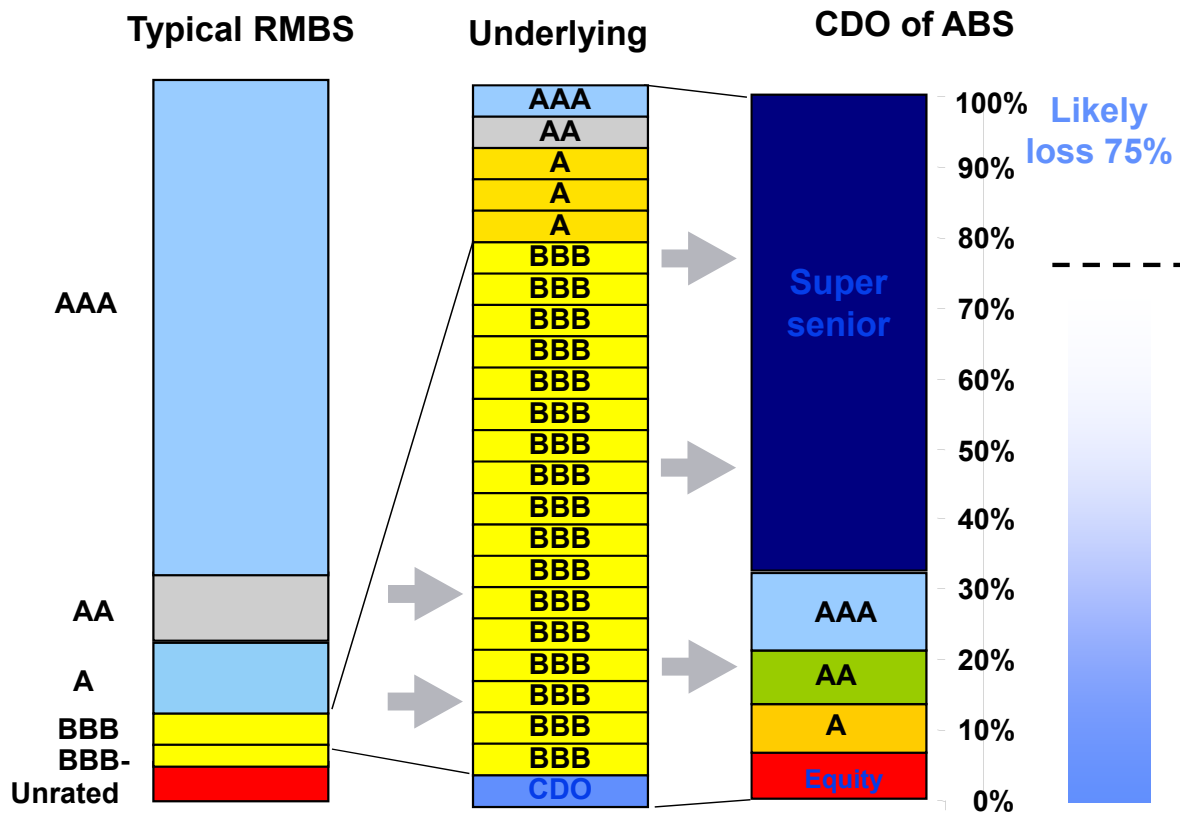
September 23rd, 2014
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192 Comments



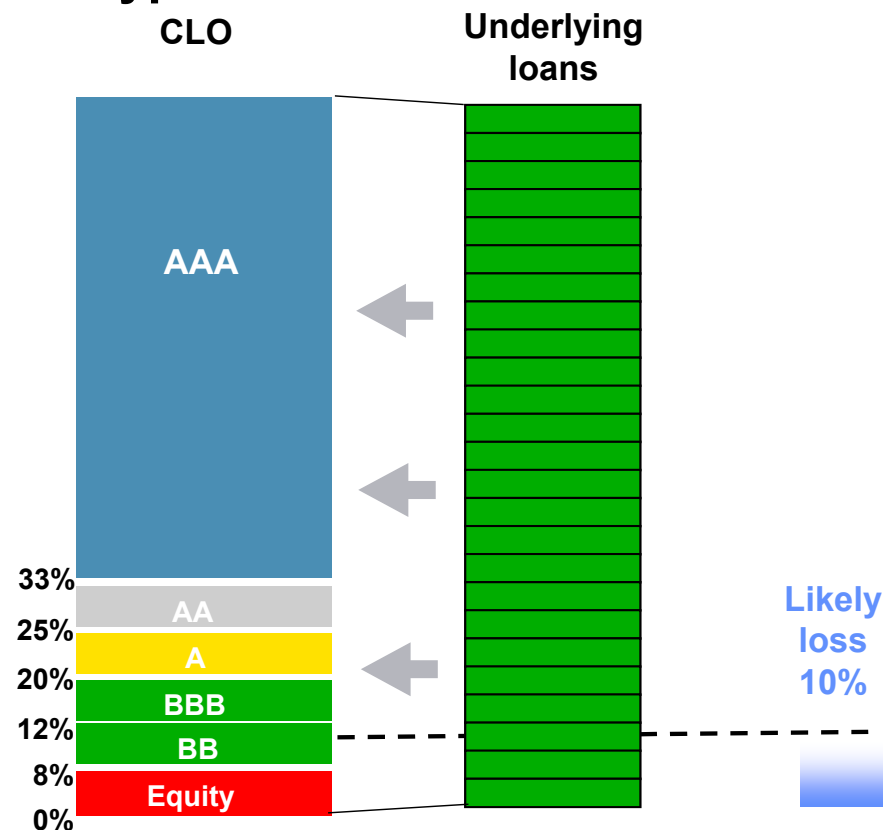
Lesson no 3 contd- The “miracle” of leverage – Assymetric Info?

Typical Mezz CDO of ABS



Source: Citi.

Typical CLO Structure



Source: Citi.

The extra layer makes losses more severe and more sudden – even assuming that defaults rise to the levels of 1998-2003 (the worst in 70 years), cumulative loss rates should not exceed 10%. So in the case of the same example for CDO of ABS losses jump to 75%

Lesson no 3 (ii) – Regulation & Govt failure



Lesson no 4 – Rethink what Economics Is

‘the study of economics does not seem to require any specialized gifts of an unusually high order’.

An economist, therefore needs to be somewhat of a jack-of-all-trades –

‘part mathematician, historian, statesman, philosopher understanding symbols but speaking in words’.

J. M. Keynes "Alfred Marshall, 1842-1924" The Economic Journal, (Sept., 1924)

Lesson no 5 – The End of History?

Kevin M Warsh: The end of History?

Speech by Mr Kevin M Warsh, Member of the Board of Governors of the US Federal Reserve System, to the New York Association for Business Economics, New York, 7 November 2007.

The original speech, which contains various links to the documents mentioned, can be found on the US Federal Reserve System's website.



‘History doesn’t repeat itself, but it rhymes ’

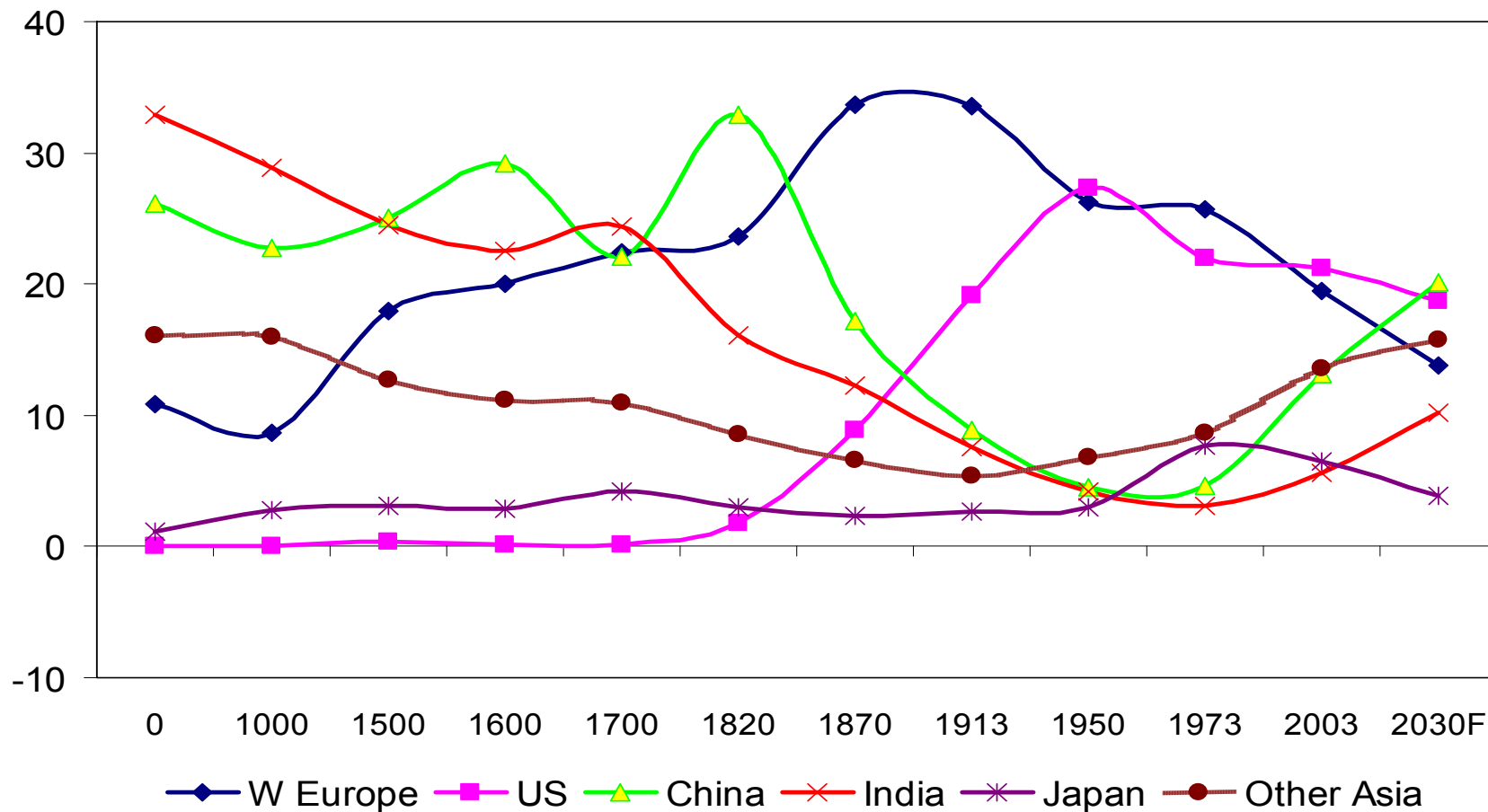
Mark Twain

‘History keeps repeating itself. That’s one of the things wrong with history.’

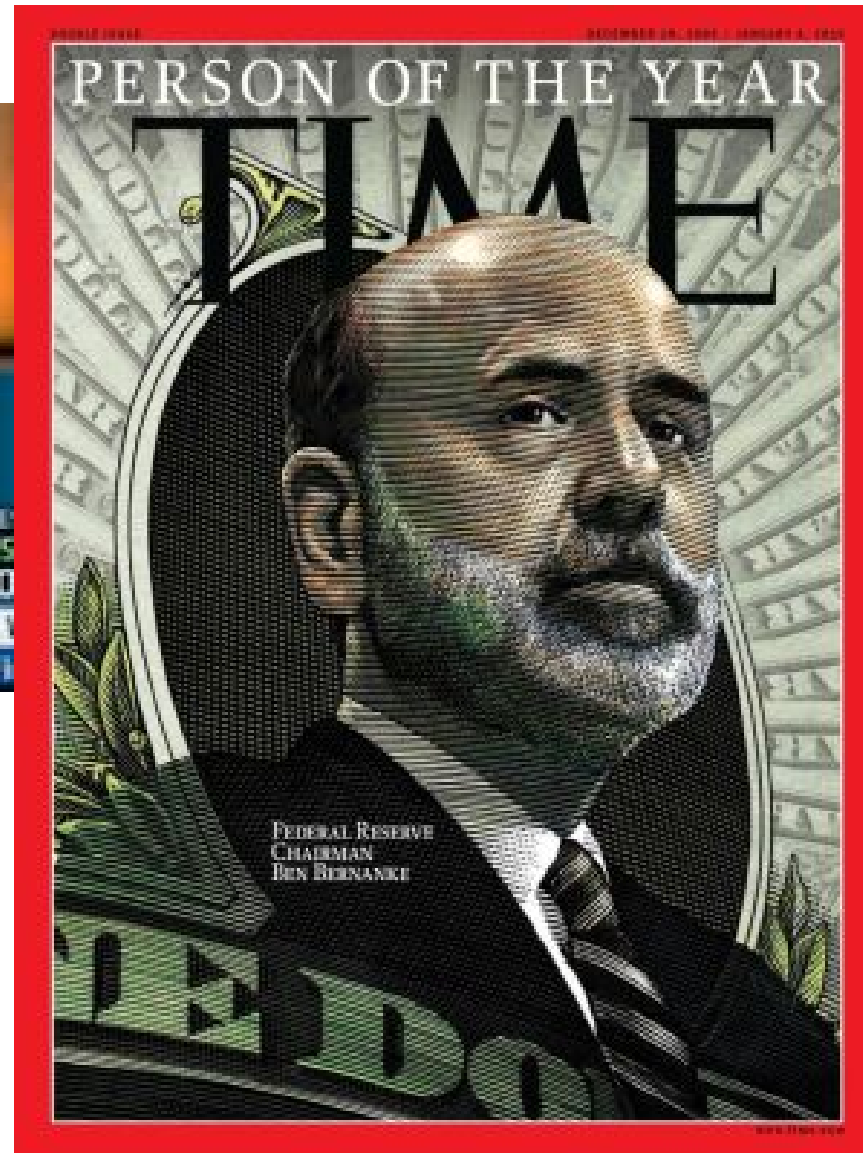
Clarence Darrow

Lesson no 5 – History part I - The World Economy – back to the ‘dark ages’ for Europe?

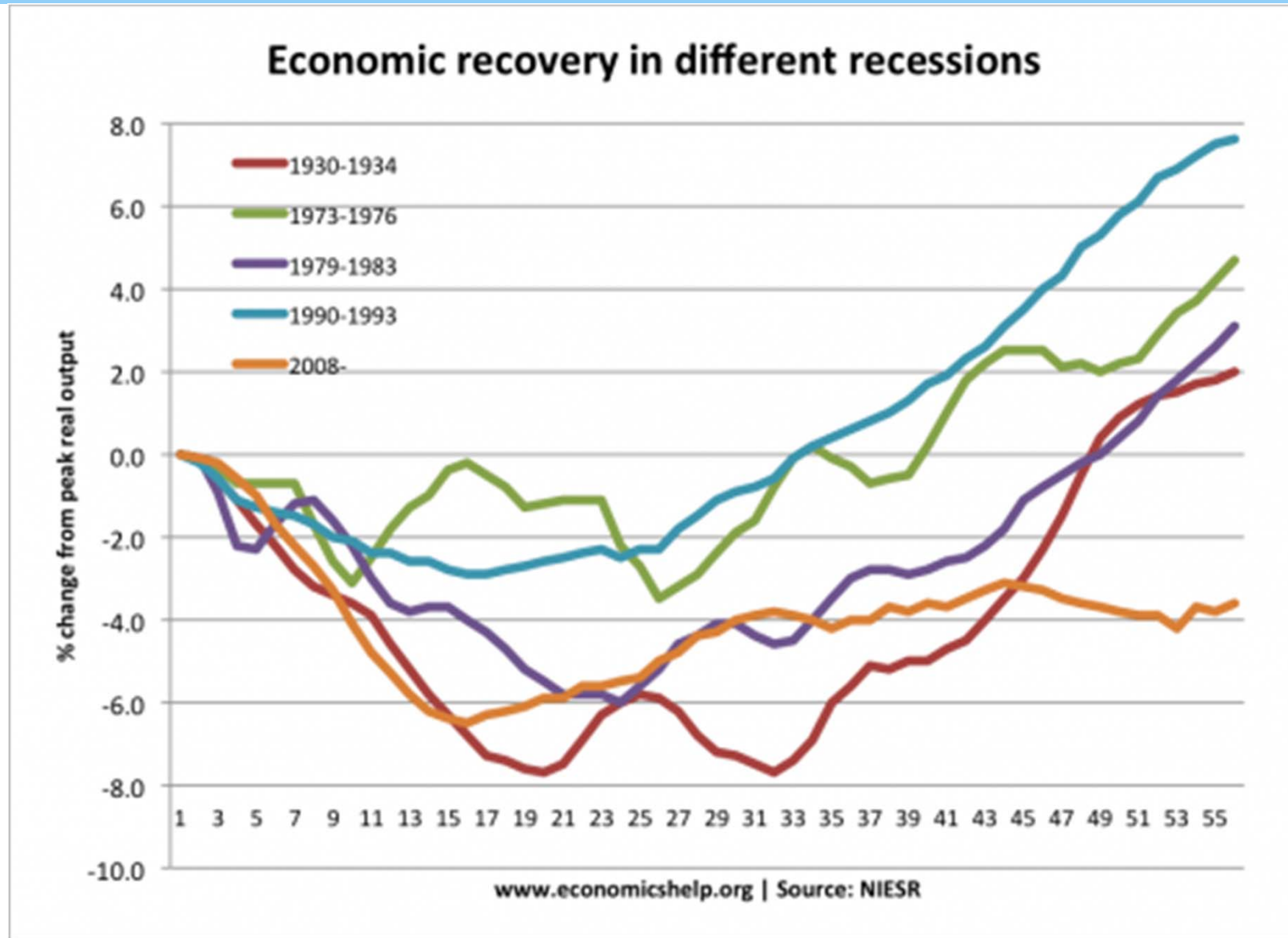
Shares of Individual Economies in the World, GDP Measured in PPP (%)



Source: Citi estimates based on original data from Angus Maddison, 2001, The World Economy: A Millennial Perspective, Development Research Center, OECD, Paris, and Angus Maddison, 2005, "The west and the rest in the world economy: 1500-2030", Australian National University, Canberra.

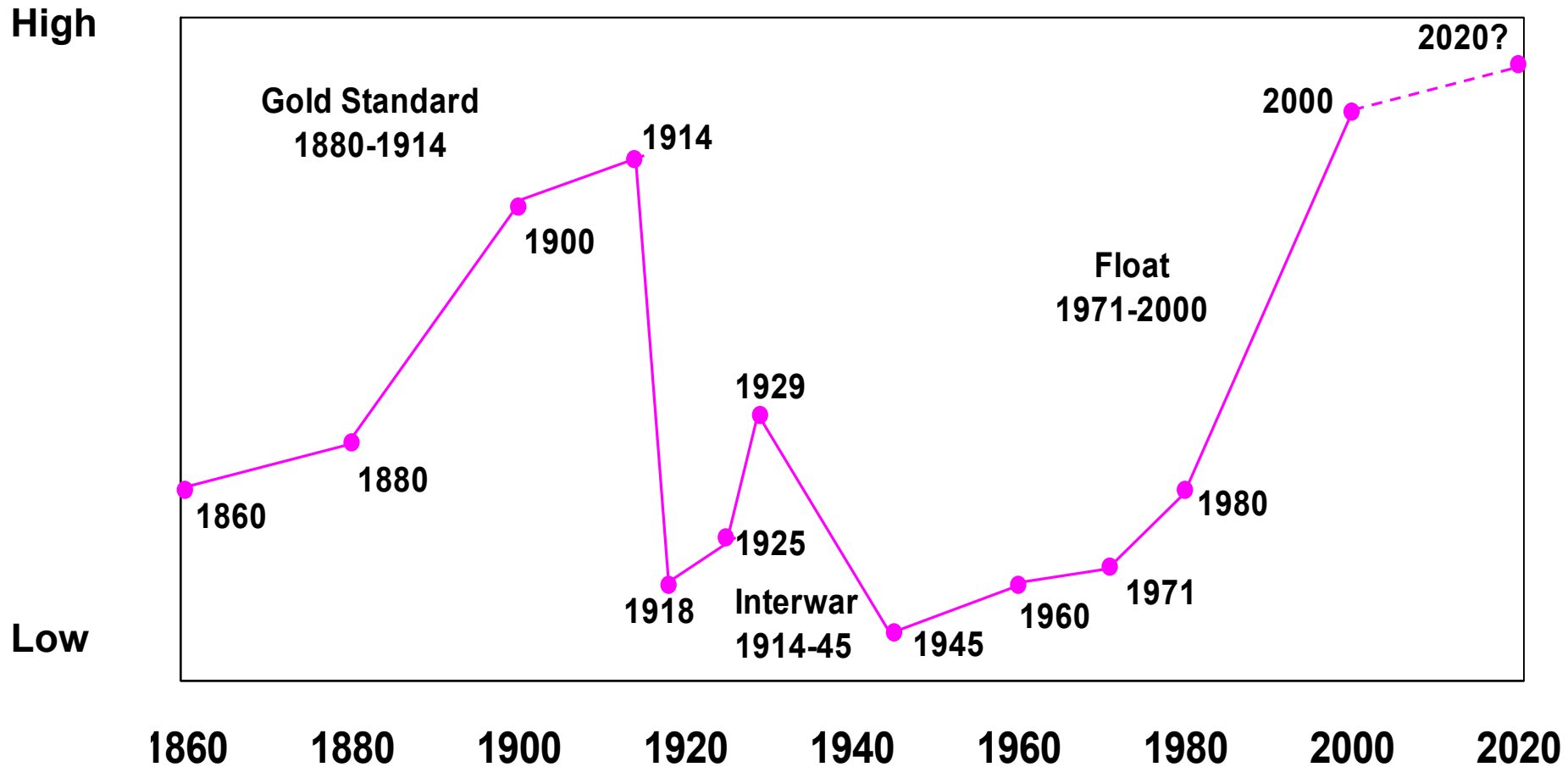


Lesson no 5 part ii – Back to the 1930s

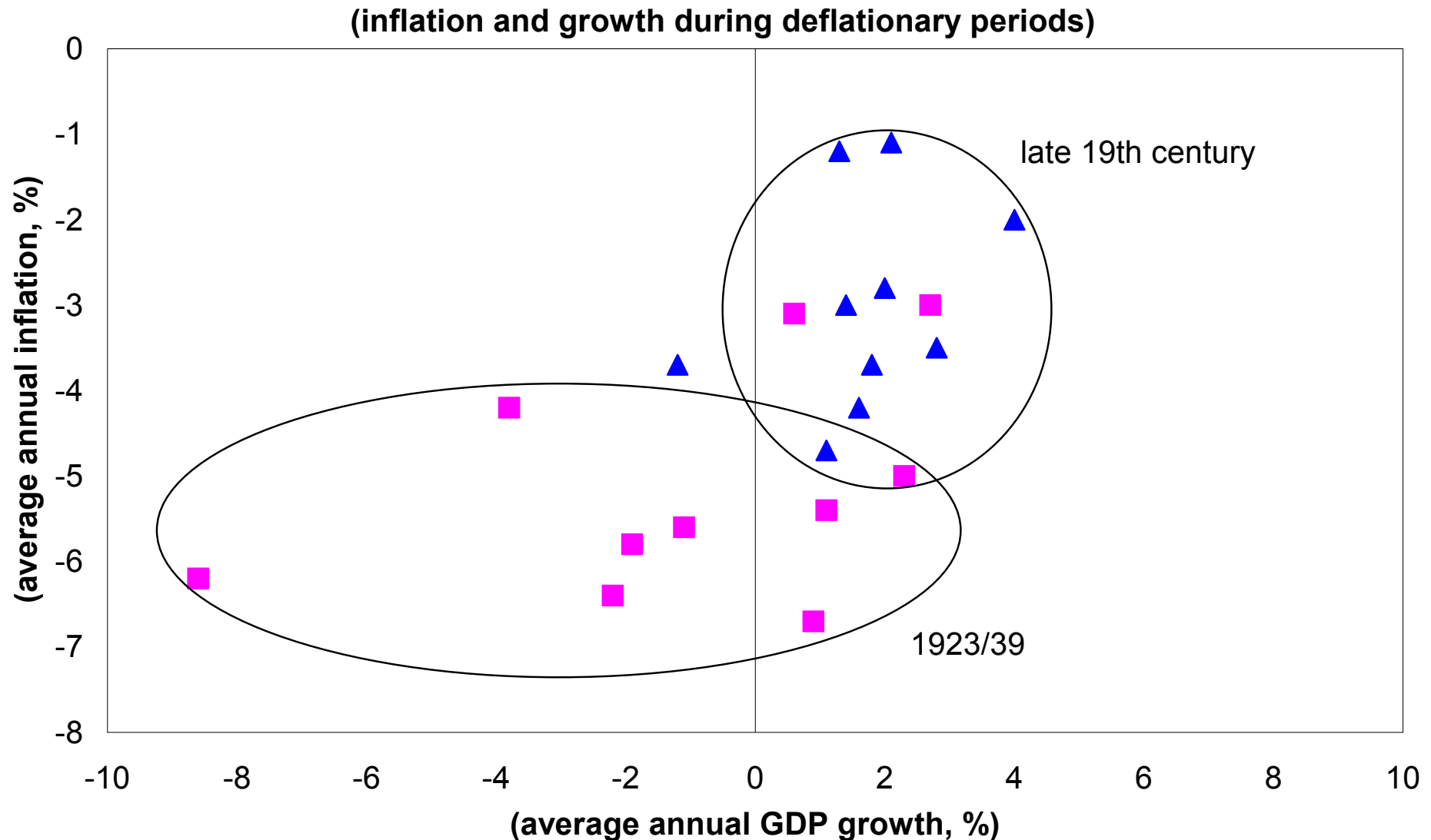


Lesson no 5 part iii – Back to the late 19th C?

(Degree of Relative Capital Mobility)

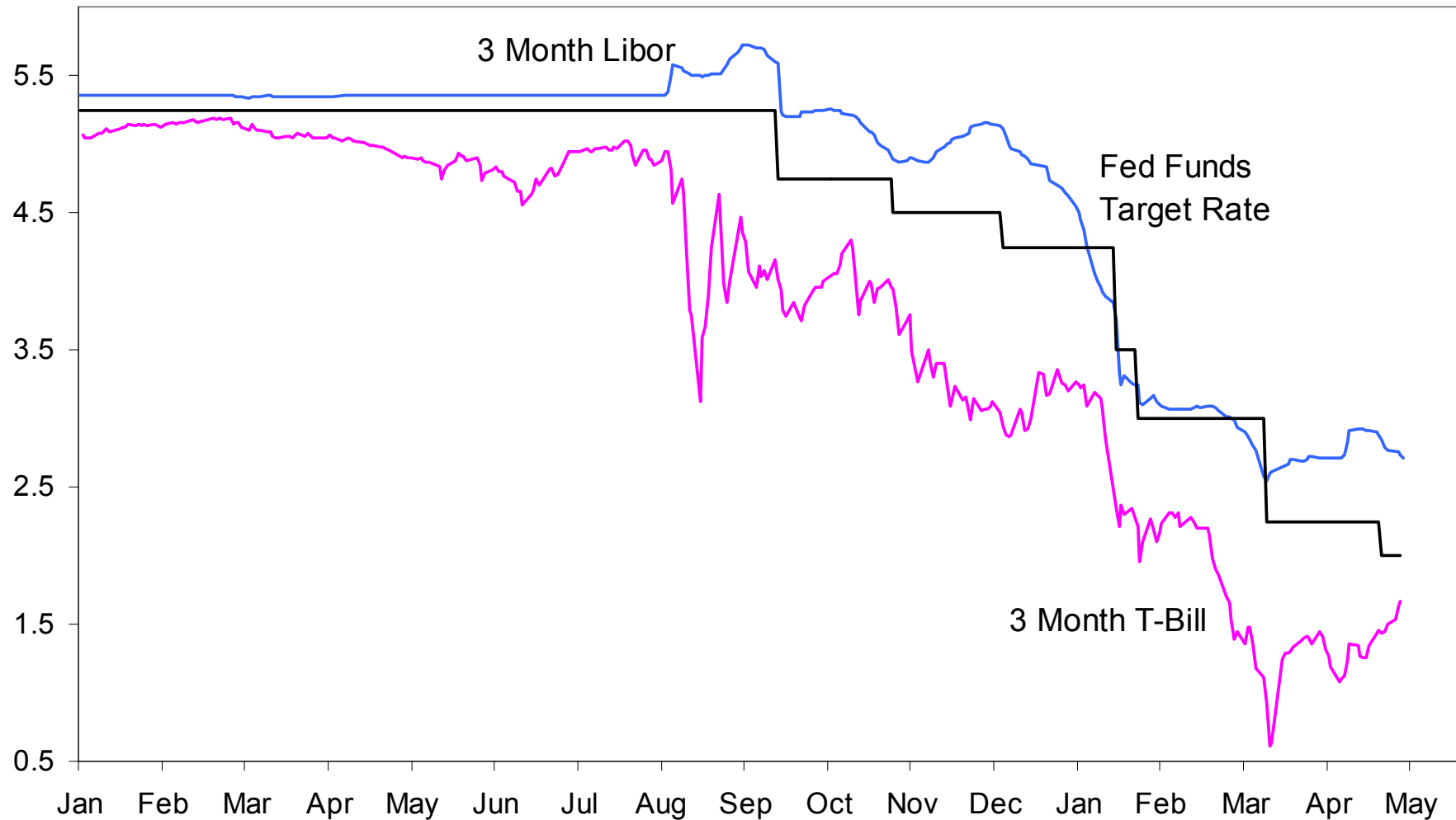


The 3rd. Industrial Revolution: benign deflation – lessons from the 19th. C

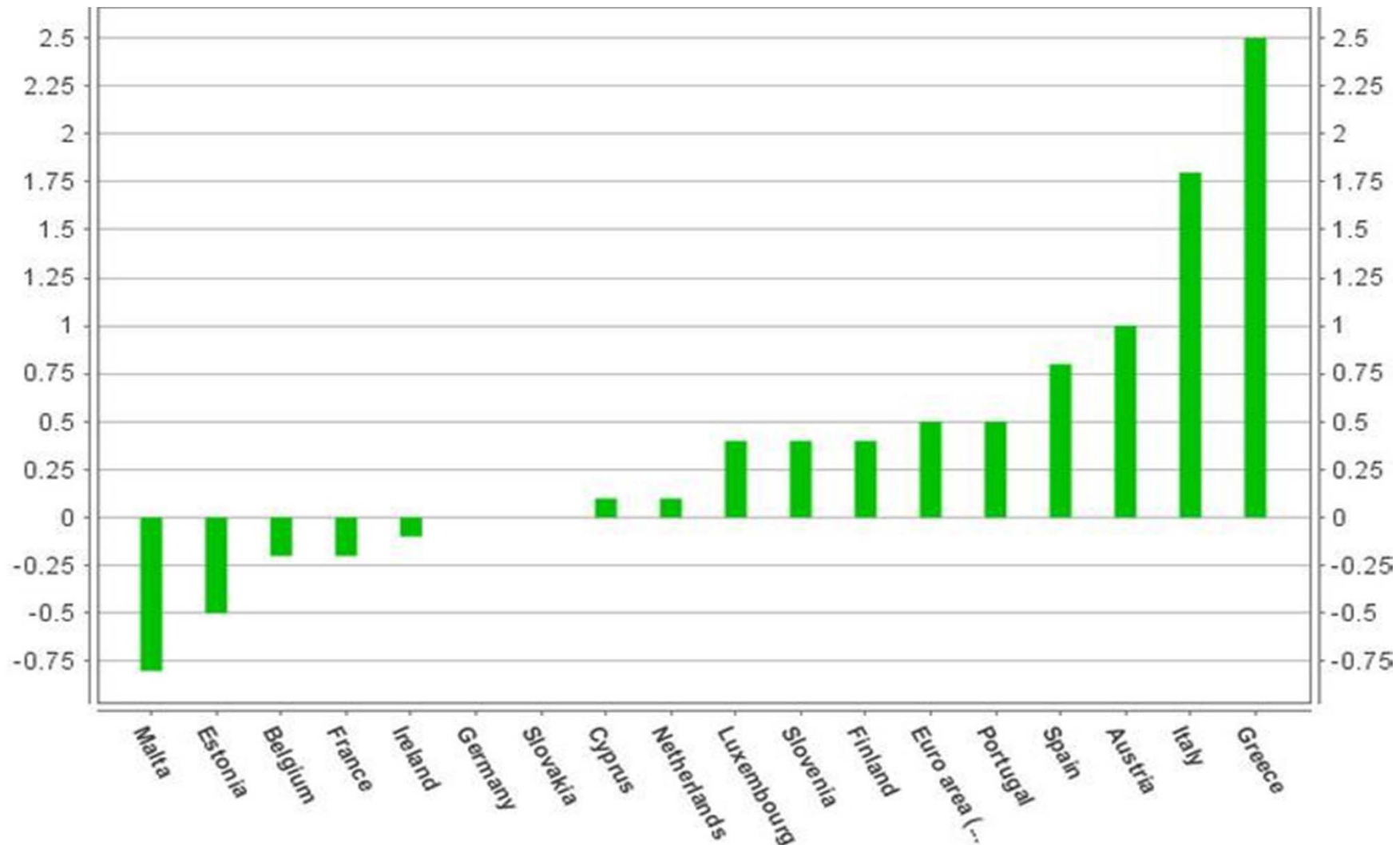


Lesson no 6 – Policy doesn't always work

(Yield on USD 3m Libor & 3m T-Bills, Jan 2007 - 8 May 2008)



Lesson no 6 ii – One size doesn't fit all



Lesson no 7 – Productivity is Critical

The Economist

World politics

Business & finance

Economics

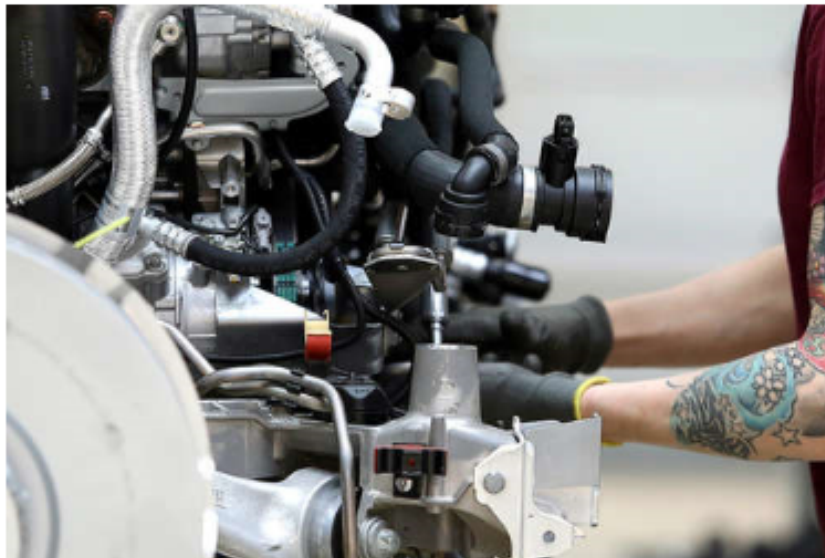
Science & technology

The productivity puzzle

Under the bonnet

Britain's stall in productivity is more serious than that of any rich-world peer. A look reveals different industries travelling at very different speeds

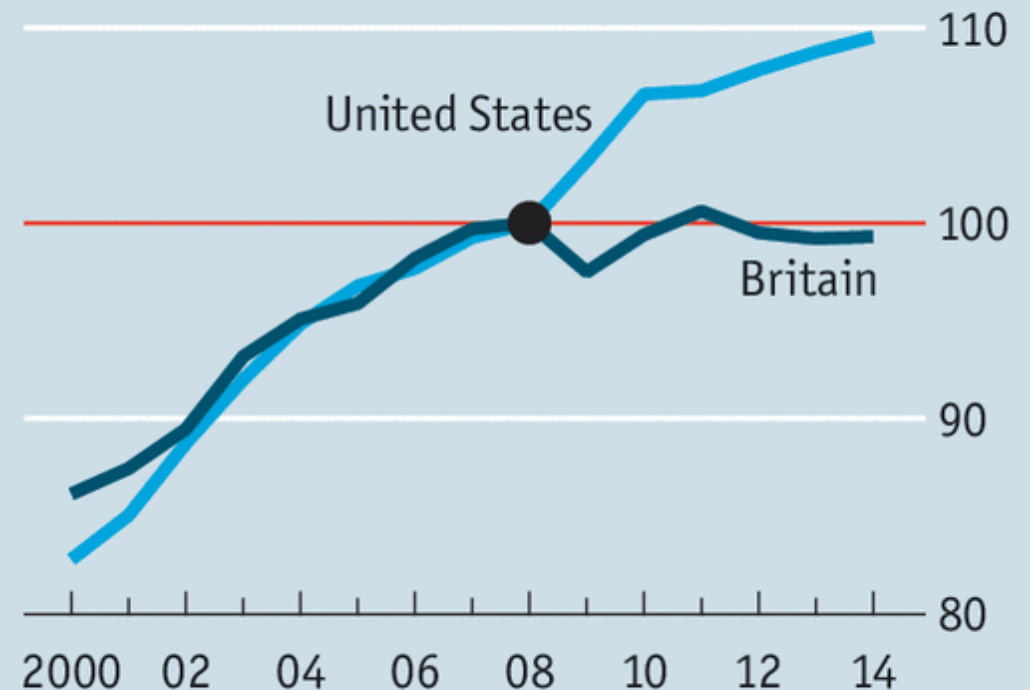
May 30th 2015 | From the print edition



FROM the outside, Britain's economy looks as if it is ticking over nicely. Last year, GDP grew by 2.8%, more than any other economy in the G7 group of rich countries. Employment has never been higher. And yet a nagging problem bothers its policymakers: productivity. An economist what he sees as the biggest risk to the country's growth prospects. The answer to the problem is the same: "productivity". GDP per hour worked is lower now than in

Transatlantic drift

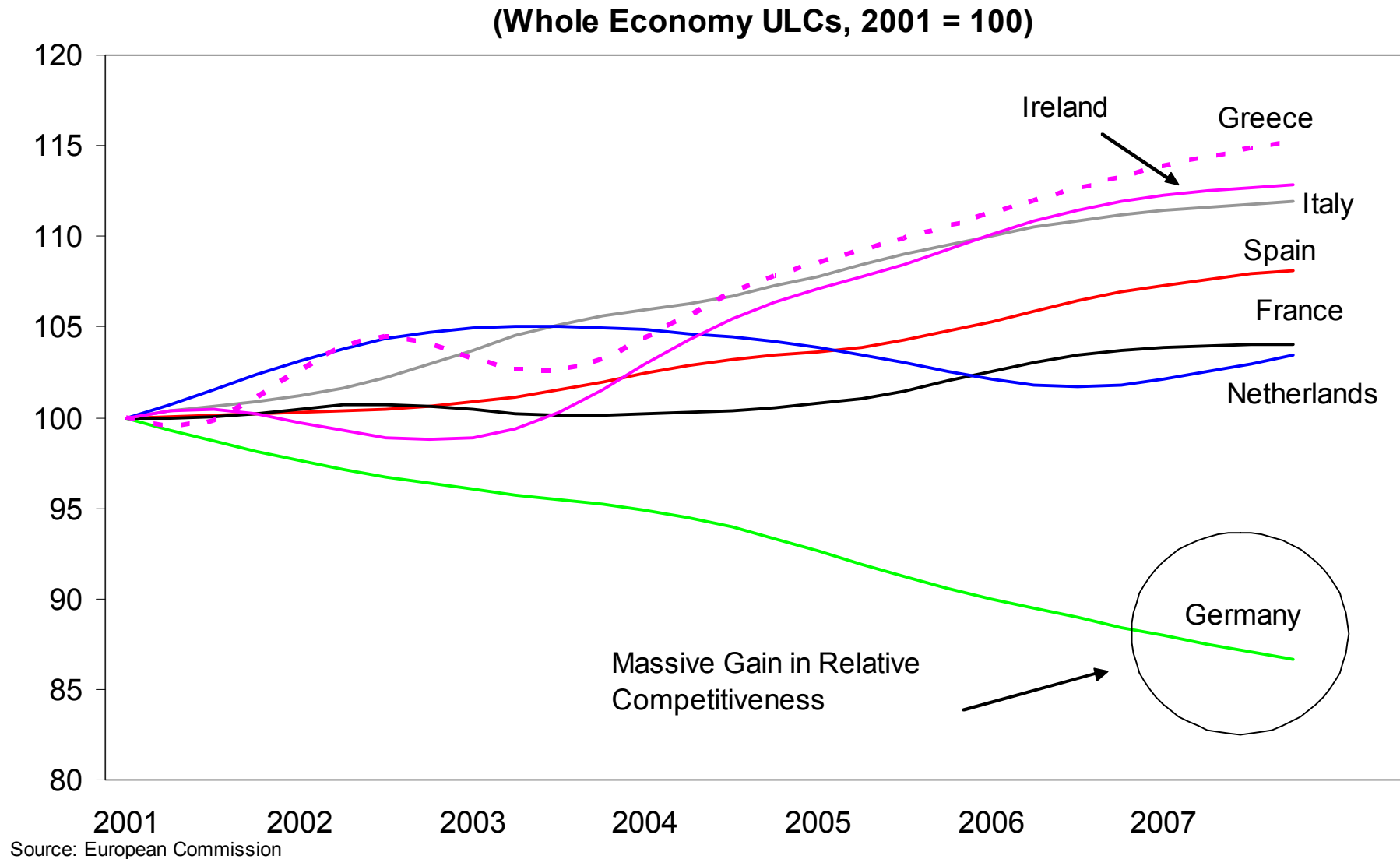
Output per hour, 2008=100



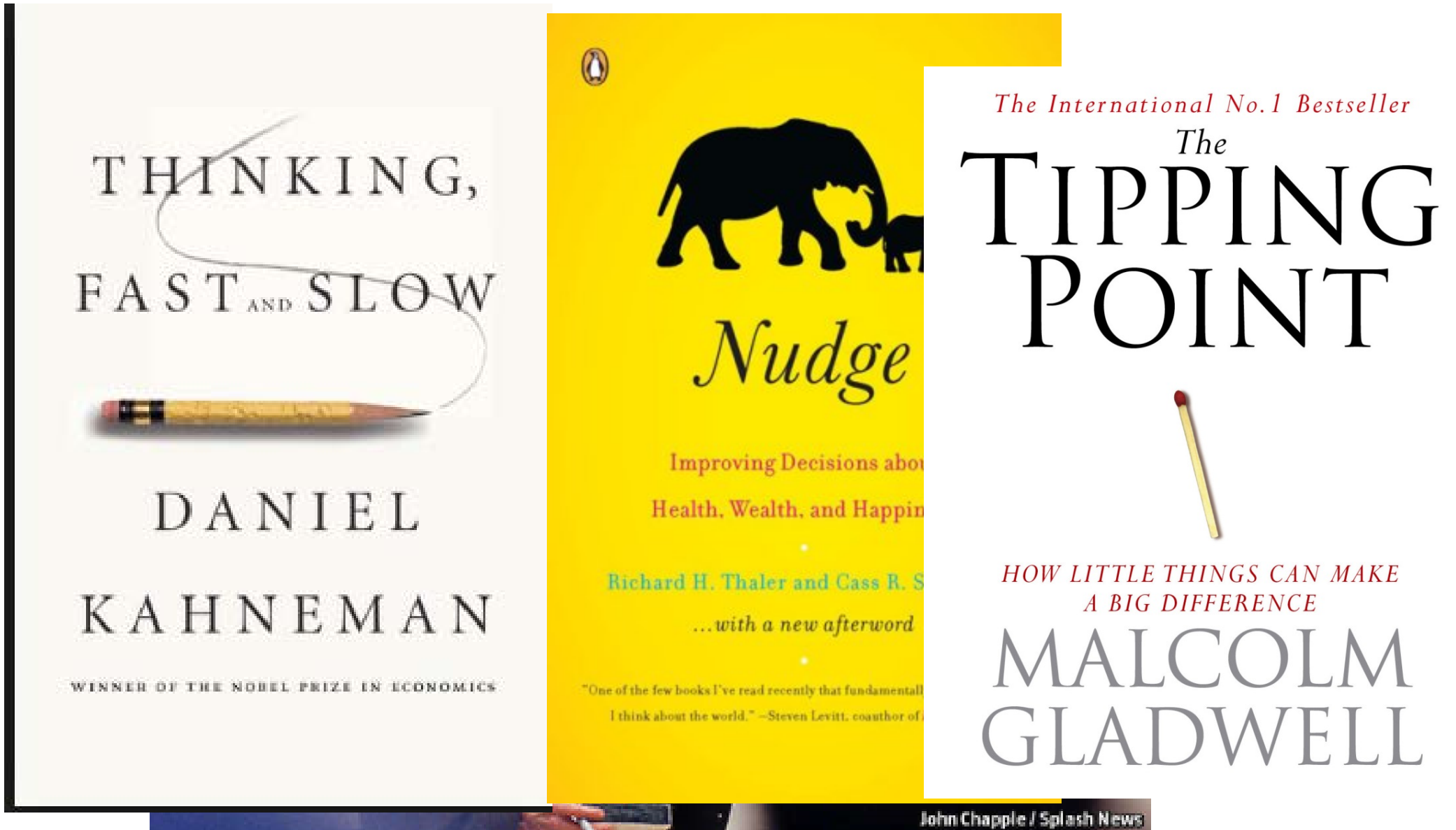
Sources: ONS; BLS

Economist.com

Competitiveness – the other reason for the Euro Crisis

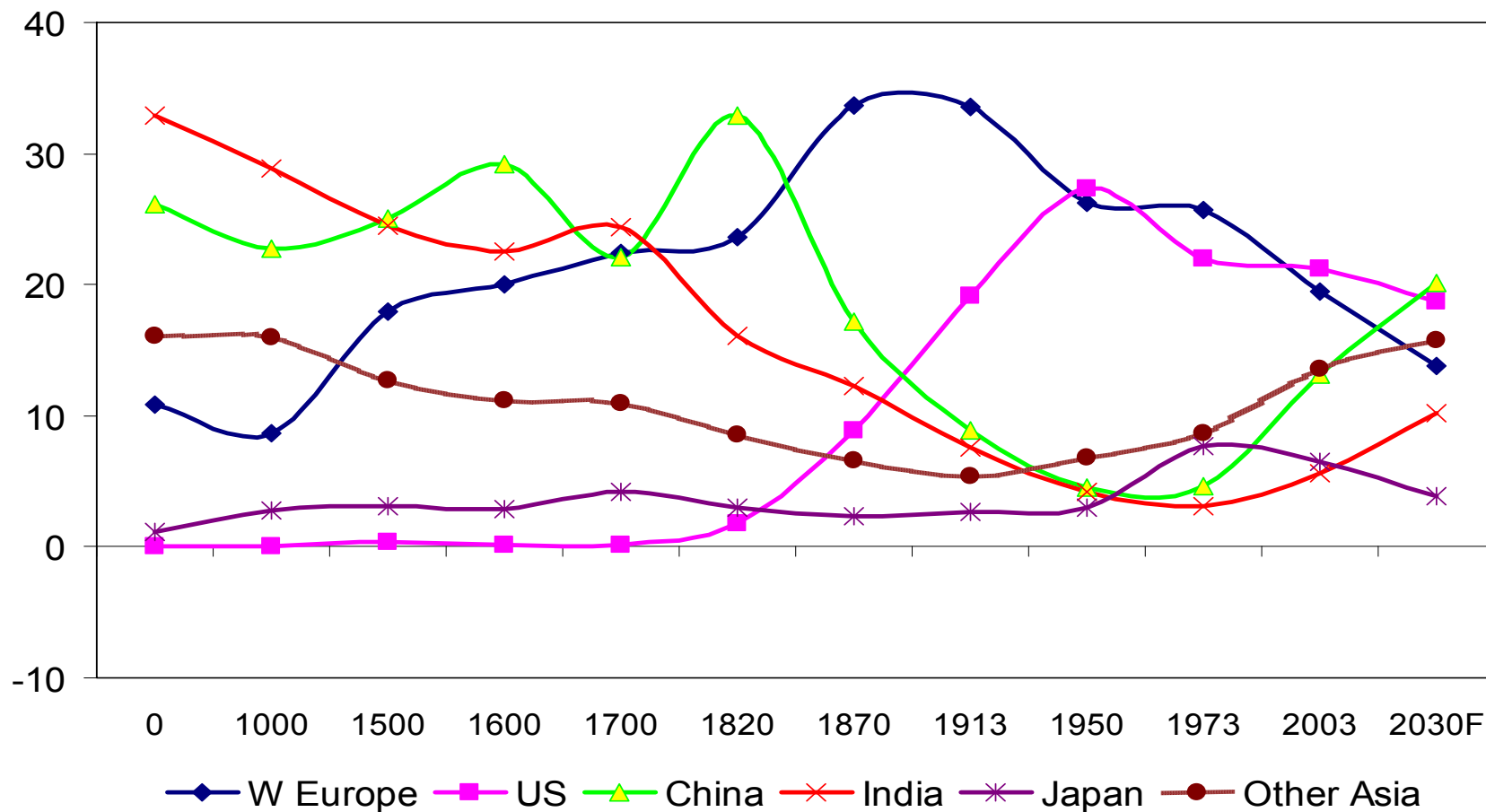


Lesson no 8 – The importance of behavioral economics



Lesson no 9 –Economic History & Shifting Balance of Power in World Economy

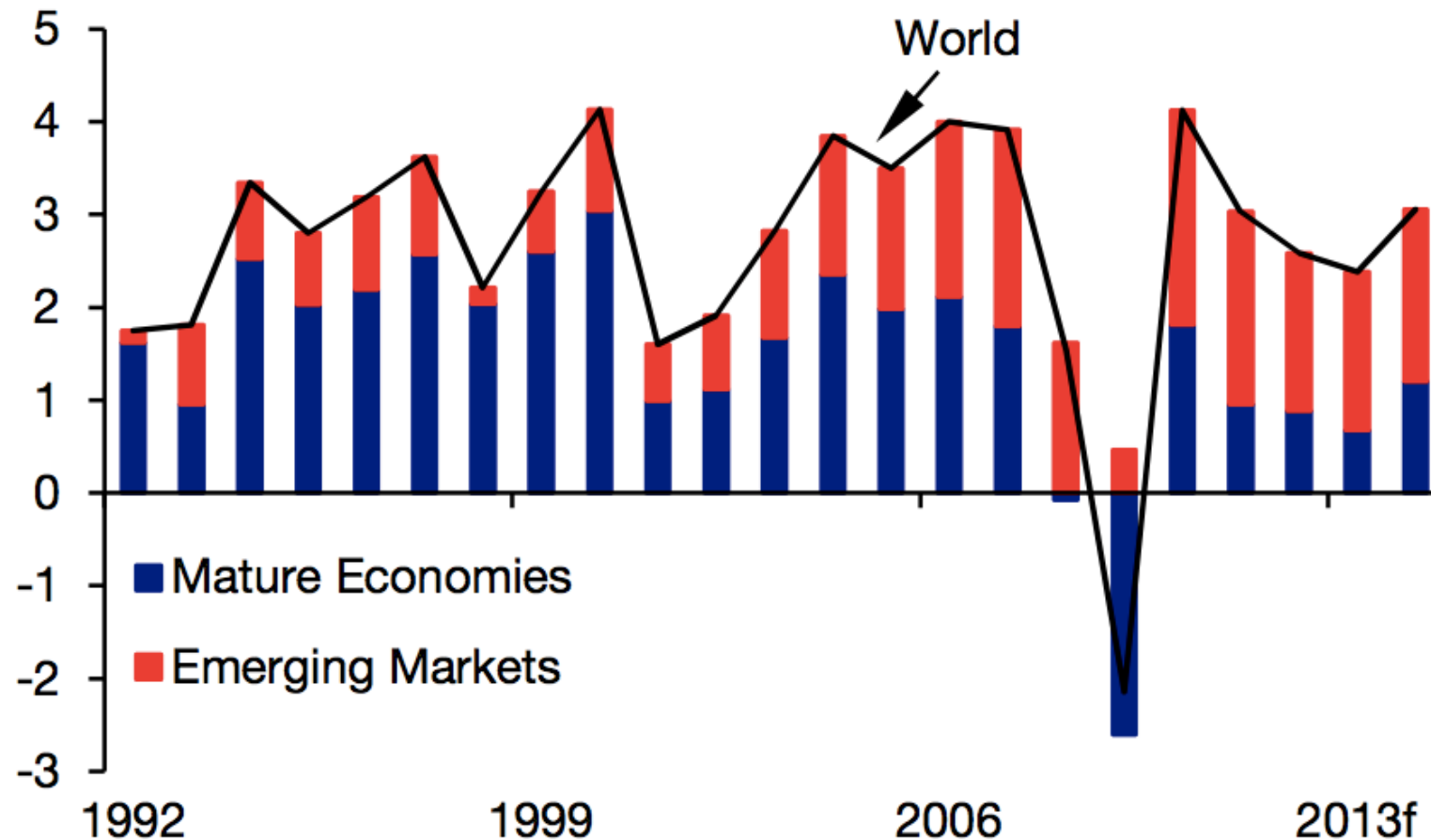
Shares of Individual Economies in the World, GDP Measured in PPP (%)



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Lesson no 9 –Economic History & Shifting Balance of Power in World Economy

Contributions to Global Growth
percentage points



Source: IIF, f = IIF forecast

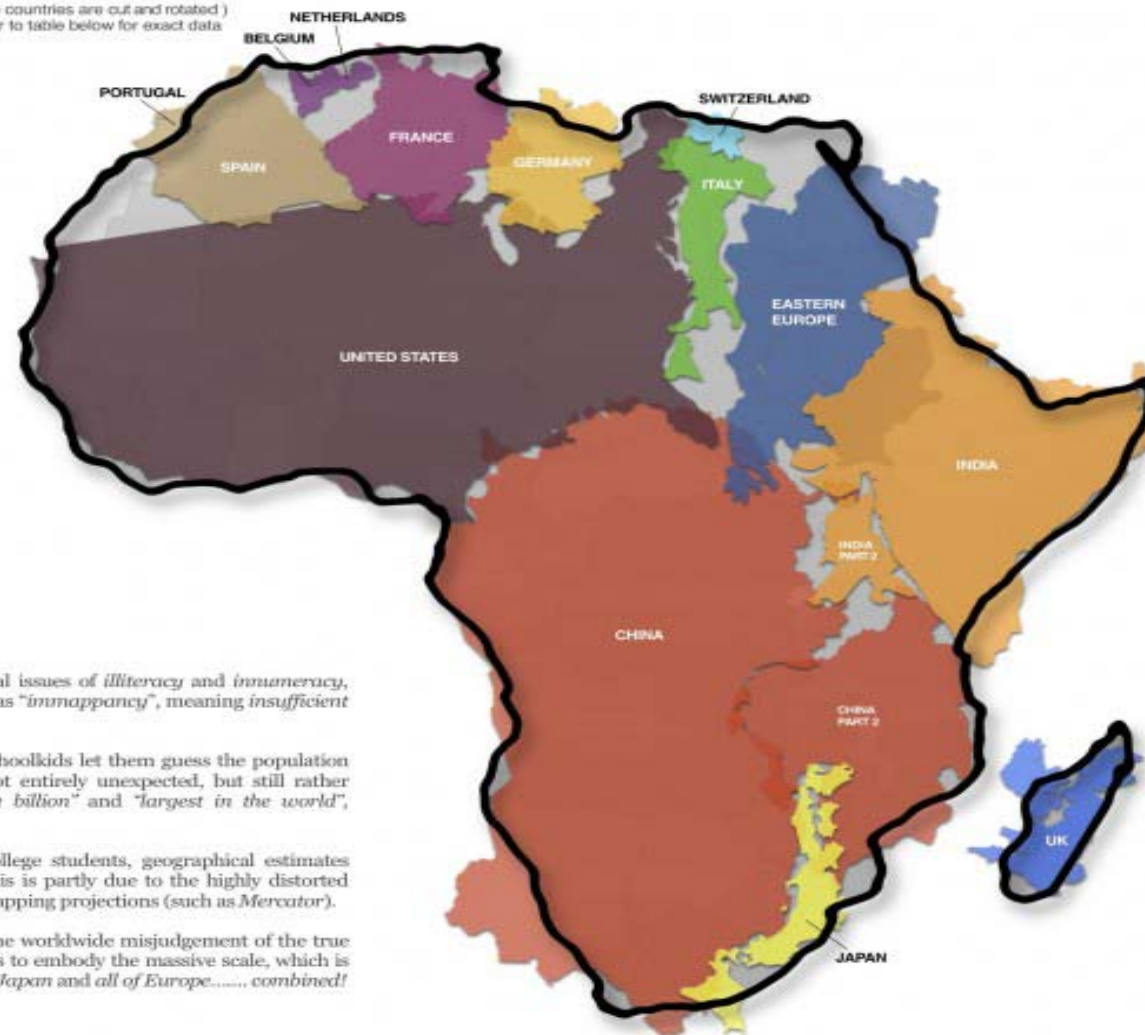
• Lesson no 9 – Shifting Balance of Powers: AFRICA – SLEEPING GIANT?

The True Size of Africa

A small contribution in the fight against rampant immappancy, by Kai Krause

Graphic layout for visualization only (some countries are cut and rotated)
But the conclusions are very accurate: refer to table below for exact data

COUNTRY	AREA x 1000 km ²
China	9.597
USA	9.529
India	3.287
Mexico	1.964
Peru	1.285
France	633
Spain	506
Papua New Guinea	462
Sweden	441
Japan	378
Germany	357
Norway	324
Italy	301
New Zealand	270
United Kingdom	243
Nepal	147
Bangladesh	144
Greece	132
TOTAL	30.102
AFRICA	30.221



Top 100 Countries

Area in square kilometers, Percentage of World Total
Sources: Britannica, Wikipedia, Almanac 2010

In addition to the well known social issues of *illiteracy* and *immunity*, there also should be such a concept as "*immappancy*", meaning *insufficient geographical knowledge*.

A survey with random American schoolkids let them guess the population and land area of their country. Not entirely unexpected, but still rather unsettling, the majority chose "*1-2 billion*" and "*largest in the world*", respectively.

Even with Asian and European college students, geographical estimates were often off by factors of 2-3. This is partly due to the highly distorted nature of the predominantly used mapping projections (such as *Mercator*).

A particularly extreme example is the worldwide misjudgement of the true size of *Africa*. This single image tries to embody the massive scale, which is larger than the *USA*, *China*, *India*, *Japan* and *all of Europe*..... *combined!*

Lesson no 9 – Shifting Balance of Power: ASIA – Centre of Population Gravity

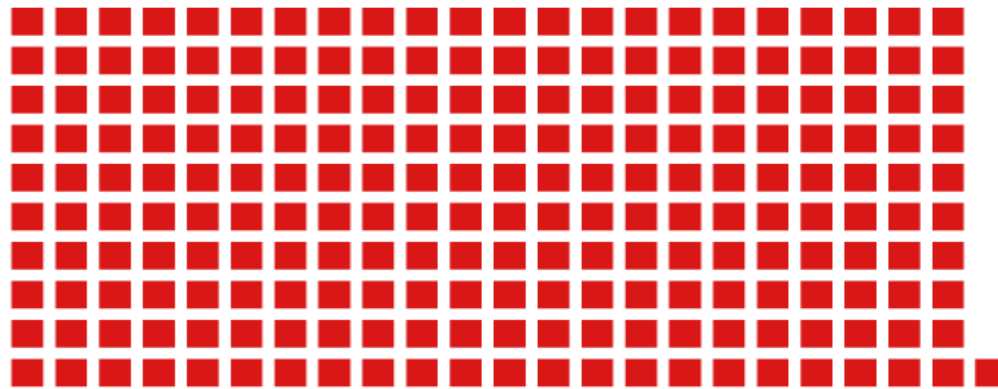


Lesson no 9 – Shifting Balance of Power in World Economy: CHINA

By 2030

221

cities in China will have more than 1m people



Europe has 35 cities that big



• Lesson no 10 – Learning economics is about getting out to observe the real world

AFRICA



The Original “Economic Cycle”

Lesson no 10 – Learning economics is about getting out to observe the real world






Lesson no 10 – Learning economics is about getting out to observe the real world






In Tandem with Africa

A teacher's journey from the Heart of Africa to London



The Importance of Remittance Pay



Posted by **Stuart Block** on Friday, 13 Jan

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Bush Banking... 24hrs a day.

AS, A2 & IB Economics



Notes



Quizzes



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Beyond the Bike - The Importance of Remittances

Sunday, January 15, 2012

by [Geoff Riley](#)

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Joseph is 29 years old and makes a living selling vehicle parts in the dusty trucker town of Igawu in Southern Tanzania. When he approached me during my breakfast and flashed 2 fresh \$100 bills, I was naturally interested to know where they came from. I offered him a ride north to find out.

The Economic Cycle - The Next Revolution



Beyond Ourselves



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schools

Beyond the Bike
2015/16 Canary Wharf to China
The Next Revolution

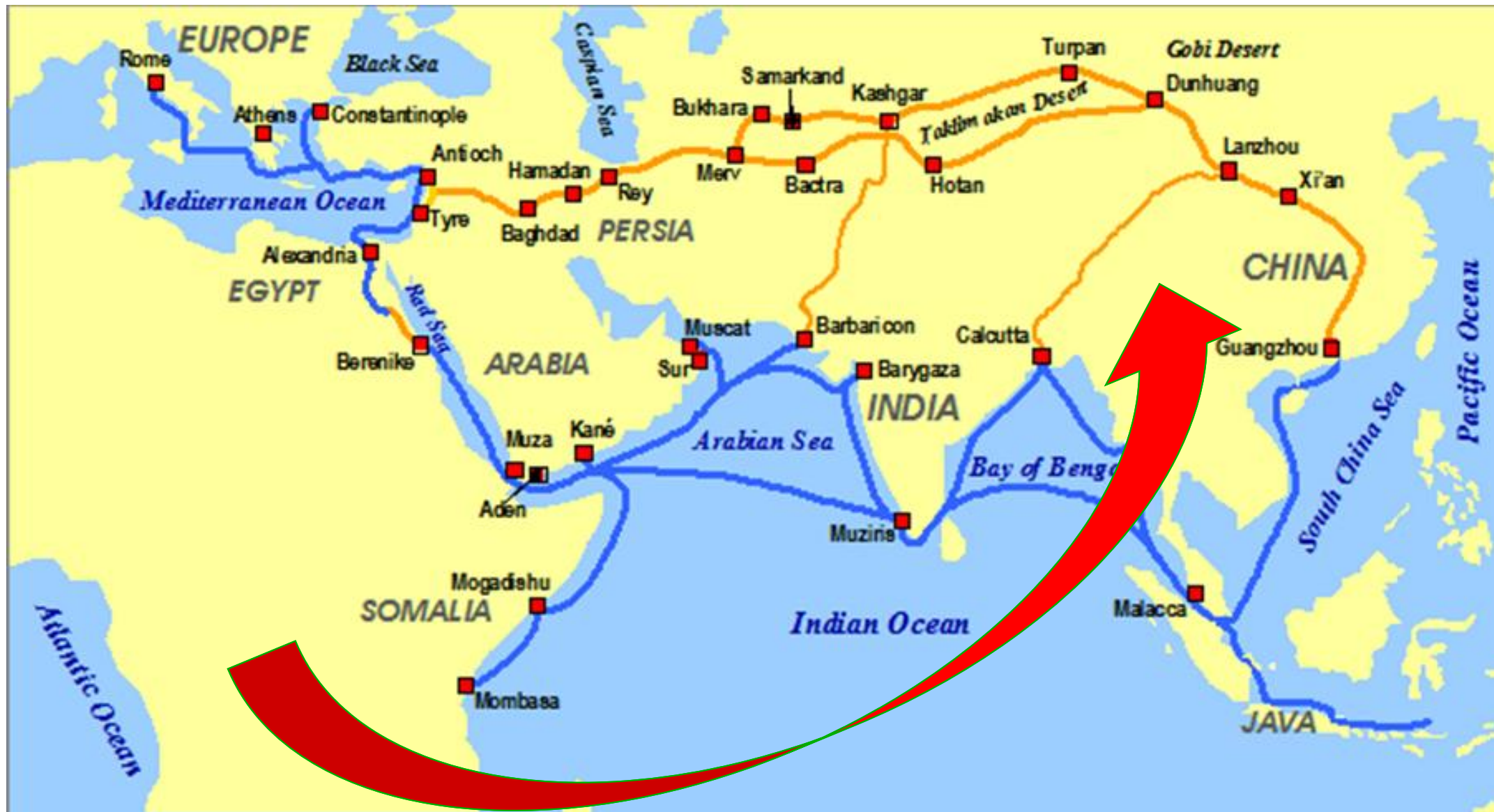


Beyond the Bike
2011/12 Cranleigh - Copperbelt

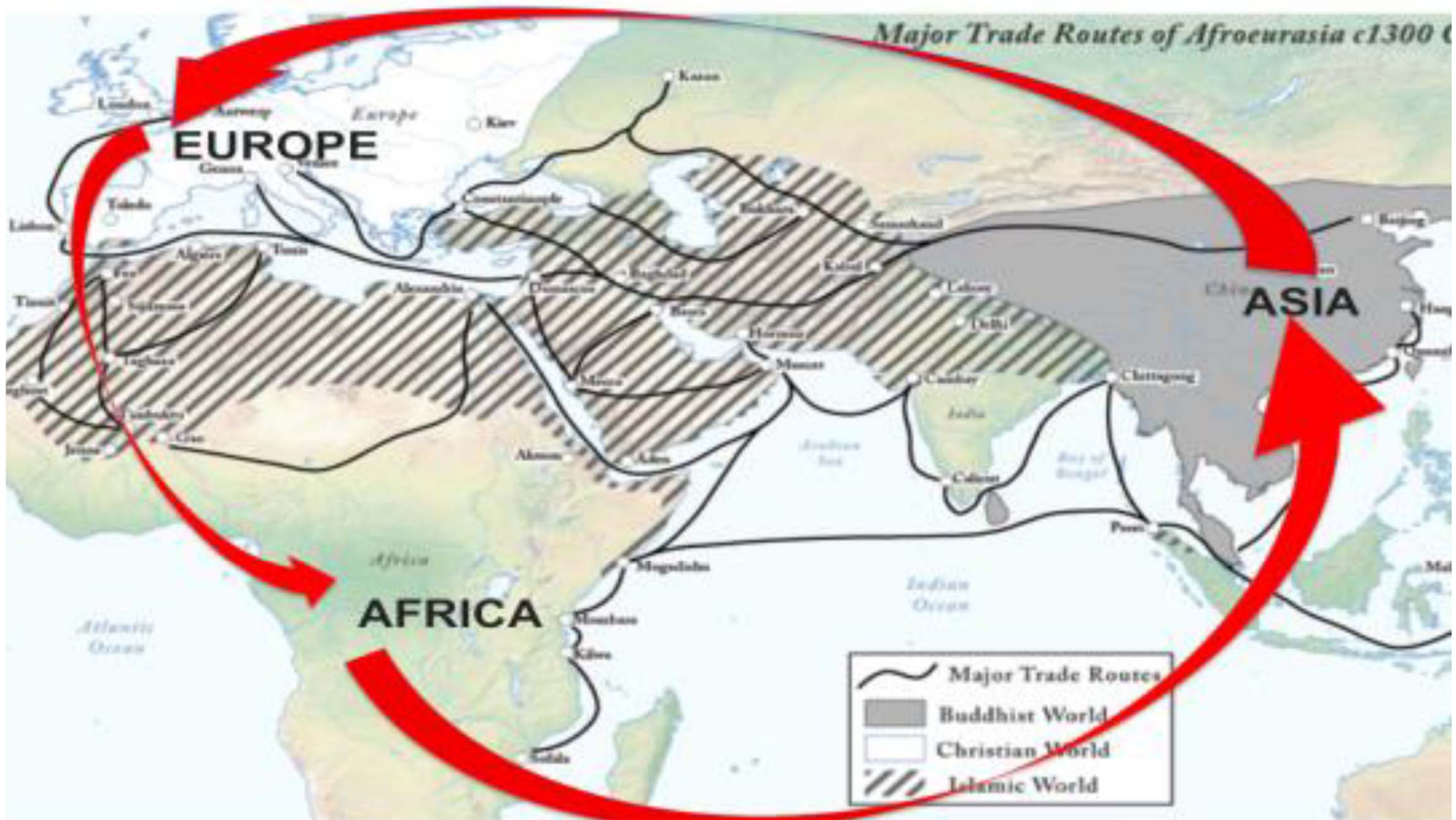
Stuart Block

bike@beyondourselves.co.uk

• The New *Silk* Road .



In a **New** Economic Cycle



From African Mine .



To Chinese Factory

The Telegraph

Home Video News **World** Sport Finance Comment Culture Travel Life
USA Asia China Europe Middle East Australasia Africa South America

HOME » NEWS » WORLD NEWS

Investigation finds widespread abuses at Apple's factories

A rights group said it had found "deplorable" conditions at Apple supply factories following a probe of several firms that make the US technology giant's hardware products.

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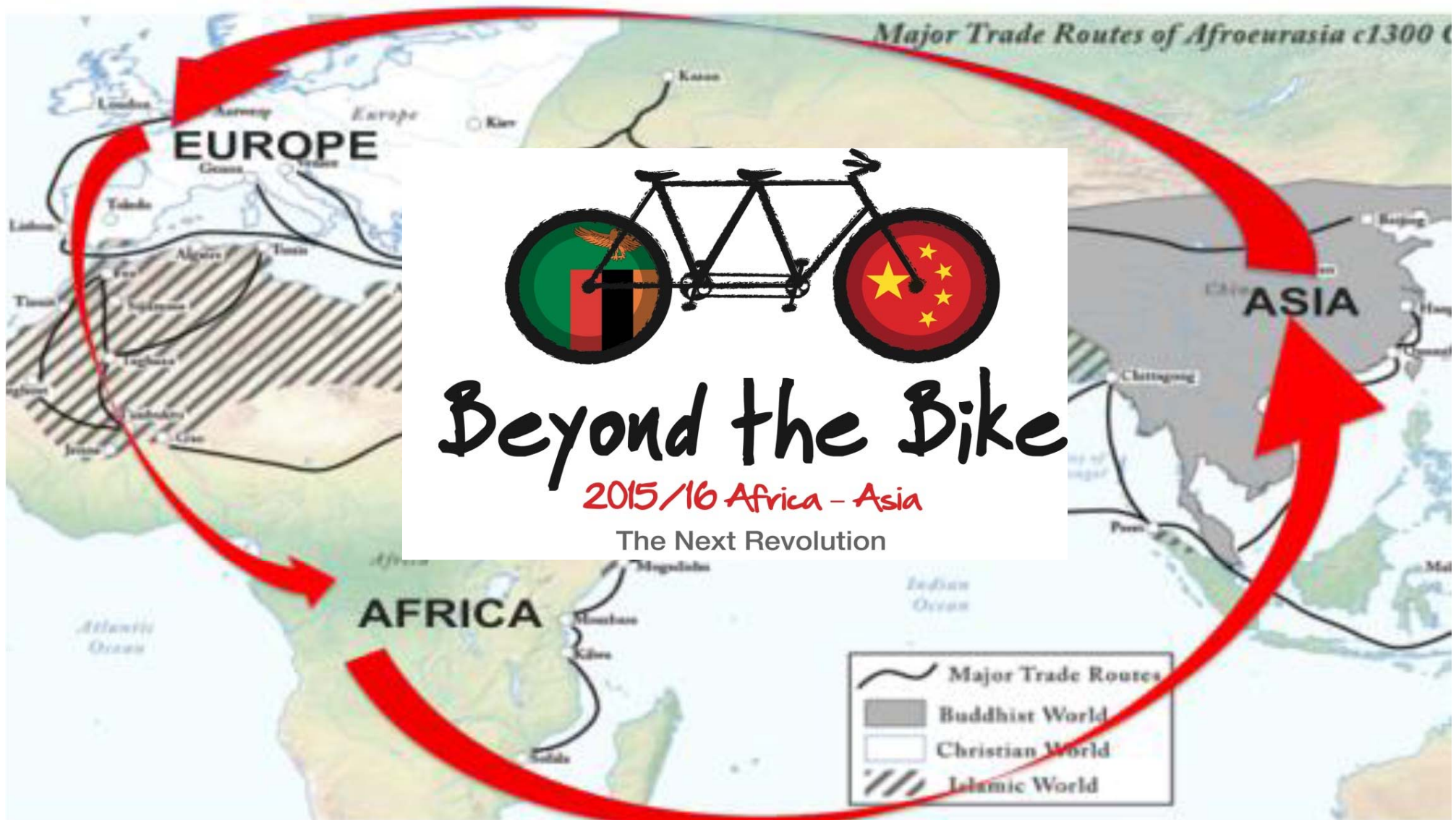
port football opinion culture economy lifestyle fashion environment

Apple under fire again for working conditions at Chinese factories

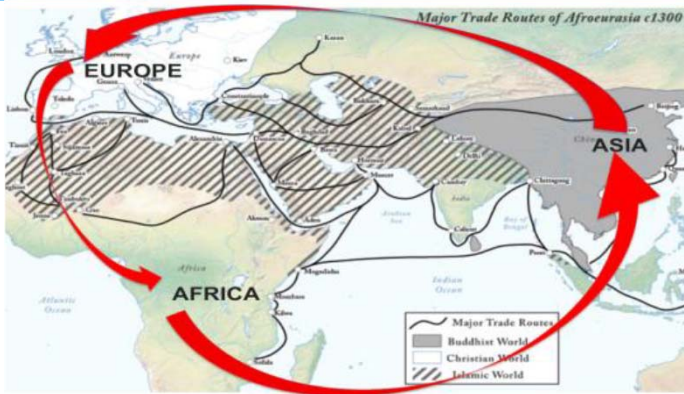
BBC investigation finds excessive hours and other problems persist despite promises to clean up act after Foxconn suicides



Beyond the Bike – The *Next Revolution*



*The Economic Cycle - The **Next Revolution** - Options for **Schools***



- 1. Follow the *blogs* and help Ruth/Tutor 2U generate extra resources on the back of the project**
- 2. Economics *Skype lessons* from Africa / Asia**
- 3. Opportunities for *EPQ students* to use us to help with some of their research/content**
- 4. Students/Teachers to *cycle on day 1* (Sept 5th) or in Cambodia**



Beyond the Bike

2015/16 Canary Wharf to **China**

The Next Revolution



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