



Economic Crisis Workshop

The US in the World Economy – skit

Characters:

Walmart – WM (needs money in the skit)

China Export Manufacturing Co – CEM (needs toys, etc)

Exxon – X (needs money in the skit)

PEMEX – Mexican government owned oil company (PEM; needs oil cans)

Goldman Sachs – GS (needs mortgages)

Deutsche Bank – DB (needs money in the skit)

Moody's Rating Agency – Moody's

AIG – AIG

Props needed:

- (1) Signs for each of the above characters
- (2) Money (Monopoly money works well)
- (3) Toys that look like TVs, dolls, computers, etc
- (4) Cans, e.g. soup cans with labels removed, to represent barrels of oil (labeled oil)
- (5) Mortgages from the housing skit (bundled)

There are four acts. Do the first two and then use the slides “Role of the US Dollar” and “Problems for the Dollar” to talk about the globalization of the economic crisis. Then do the next two.

Act I: Walmart and China Export Manufacturing Co Dialogue

Walmart China Export Manufacturing Co.

WM: Hello CEM. We need to increase our purchase of your TVs, toys, clothes, computers – they sell like hot cakes in our country. And our companies simply can't match your prices because our workers want too much money.

CEM: Ok, we have lots of unused capacity. And we have a constant migration of people from the countryside looking for work. We really need to keep up job growth in our cities. Can you pay for all this?

WM: Of course. Most of our customers buy on credit so we can keep selling as long as you keep sending.

CEM: Won't their debt get too much for them to continue buying?

WM: No, they are getting richer because housing prices are rising steadily in the U.S. Our customers can borrow against their growing house values if needed.

WM and CEM exchange dollars for goods.

Ask for reflections, discussion.

Act II: Exxon and PEMEX Oil Dialogue

Exxon
PEMEX

X: We need to increase the number of barrels you send to us. Demand is growing rapidly and we have great profit opportunities.

PEM: Well, we can ramp up production a little in the short run but we'll need to add capacity to meet this demand. Fortunately, we've got an RFP out to Halliburton to develop more drilling capability. They're a really responsive company with great contacts in Washington.

X: We'll have to increase the price of gasoline but that's not a problem, Americans want to drive.

PEM: How can they keep paying for it?

X: Oh, people have credit cards. And, of course there is always the possibility of borrowing against their houses. Housing prices are going up constantly – it's a great investment as well as a place to live.

PEM and X exchange barrels of oil for dollars.

X: Gee, are these barrels getting smaller?

PEM: Is your money getting worth less?

Ask for reflections, discussion.

Act III: Goldman Sachs and Moody's and AIG Rate Mortgage Backed Securities Dialogue

Goldman Sachs
Moody's
AIG

GS: Hi, good to see you again. Wasn't that a great game the other night – did you enjoy the tickets we got you?

Moody's: Yes, it was a tight one all the way to the end. What can I do for you today?

GS: Well, you've really helped us with rating these mortgages in the past, and I hope we can continue to do business. I've got a new bundle of mortgages, and I need a triple A (AAA) rating because I've got to place them with some very conservative investor.

Moody's: Well, let's review them [looks over the bundle]. Hmm... most of them look pretty good but there might be a few risky ones. Can you get them insured?

GS: I think so. Let me get in touch my friend at AIG in here.

AIG [enters the office]: So, you need our triple A rating again, right?

GS: Yes, of course we'll figure that cost into the interest rate.

AIG: These all look good to me. We can issue credit insurance against them.

Moody's: Ok, with that I'm sure we can rate them triple A.

GS: Thanks for getting on top of this so quickly.

AIG: No problem. I want to hit those bonus numbers.

Ask for reflections, discussion

Act IV: Goldman Sachs and Deutsche Bank Dialogue

Goldman Sachs
Deutsche Bank

GS: Well, you've certainly taken in a lot of dollars exporting to the U.S. Where do you invest all these proceeds?

DB: We've bought a lot of treasuries.

GS: How's that working out for you? Are you satisfied with the yields?

DB: Not really but we don't want to take on too much risk.

GS: Suppose I could find you triple A (AAA rated) securities with yields 2 – 4% above US treasuries? Would you be interested?

DB: Of course, but how is that possible? What kinds of investments are you talking about?

GS: They're called Mortgage Backed Securities, MBS for short. We build these securities from housing mortgages issued in the U.S. Thanks to the repeal of the Glass-Steagall Act, I'm able to handle both stocks and other investments *and* mortgages!

DB: And you say they are triple A?

GS: Yes, of course there are also some lower rated Mortgage Backed Securities that you could add to your portfolio with higher yields but only in modest quantities.

DB: How can these be triple A?

GS: They are rated by Moody's and Standard and Poor's, the premier rating agencies in the U.S. And, they are insured by AIG. AIG has a triple A rating and is very highly diversified so any risk is spread across many industries and sectors. We've sold a lot of these to US pension funds, and they can buy only the safest debt.

DB: But what is the backing for these – what did you call them, Mortgage Backed Securities?

GS: Yes, Mortgage Backed Securities. The backing is all the mortgages that US home buyers take on as they buy houses. And house prices are just going up and up. You know, there has never been a nation wide decline in house prices in our country. And even when prices decline in some markets, buyers stay in their homes and make payments. Owning a home IS the American Dream.

DB: Triple A, huh, with yields at treasury plus 2% or more? Yes, we would like to buy some.

GS gives DB Mortgage Backed Securities; DB gives money to GS.

Ask for reflections, discussion.