The 2008 Wall Street Crash

High School Specialized Committee

Background Guide

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Esteemed delegates and sponsors of VIMUNC XI,

Welcome to the eleventh annual Virginia Invitational Model United Nations Conference. As the MUN year winds down, we hope to provide the best experience yet, with paramount service and attention to detail that creates the greatest conference. From broad UN organizations to regional bodies, from corporations to criminal organizations, VIMUNC has committees that truly serve every interest. With experienced chairs, czars, and staff, we will ensure that every delegate truly has a positive experience, and we hope that you can enjoy your experience with us.

VIMUNC's 21 committees and over 850 delegates make this year's conference one of the largest editions ever, and we look forward to expanding our outreach across the DMV region to continue to provide a wonderful experience for all delegates. With a large MUN team that has years of experience, we hope that every single minute of the committee is filled with substantive debate that will create learning experiences that last for years to come.

So much hard work has been put into every single crisis update, background guide, and dossier, and we sincerely hope that the work and care placed in each aspect of this conference is displayed in its quality. If at any time you feel something about the conference is unsatisfactory, please don't hesitate to talk to your chairs, a staffer, or a member of the Secretariat.

Thank you so much for your commitment to VIMUNC XI, and best of luck in your committee, future conferences, and ambitions.

Sincerely,
Mei Torrey
Secretary-General, VIMUNC XI

2008 Wall Street

TOPIC A: *Wall Street's Role in the American Economy*

TOPIC B: *The Fed and Monetary Policy*

Overview of the Body

Located in the Financial District in Lower Manhattan, Wall Street is the home to some of the most influential U.S. investment and brokerage firms. It is the site for the New York Stock Exchange (NYSE), the Federal Reserve Bank of New York, and some of the largest commercial banks and insurance companies. It is a crucial hub for a financial institution with an enormous network of financial institutions, investors, and markets. Its meaning in the whole sense of the word is more than just the boundaries of New York City, driving through to the economy of the entire nation. Wall Street mediates many necessary functions: it allows companies to allocate capital and get funding from the stock and bond markets. It enables an individual to invest and develop his/her capital.

Events of 2008, in fact, basically delivered a turned-on-its-head image of Wall Street. High-risk behaviors and flawed incentives drove all such events of the debacle that followed the housing market catastrophe. The Federal Reserve drastically intervened with its monetary policy tools—cutting interest rates and implementing quantitative easing—to support the economy, take care of financial institutions, and prevent total economic collapse, restoring trust in the financial system.

In 2008, everything started to turn back on itself. Wall Street and the whole American economy are mutual. While the engine of growth and prosperity is present on Wall Street, so are the actions with their consequences. The financial crisis indicated that the Federal Reserve should be critical in maintaining financial stability and promoting economic resilience. Lessons learned can pave the way to creating a more inclusive financial system that serves all Americans. What is learned from the crisis is a reminder of the Federal Reserve's role as our nation's bank. A second example of the adaptability and innovation capacity of the central bank would be its potential to react in a crisis, enabling it to conduct an active and quickly implemented monetary policy. Its dual mandate concerns the promotion of both employment and price stability.

Topic A: Wall Street's Role in the American Economy

Background Information:

Wall Street has been the main home of the American economy over the last century, as all the major financial firms of the United States are located in the Manhattan neighborhood. The area has become almost synonymous with financial markets and industry, influencing national and global economic policies and practices. Almost being home to the New York Stock Exchange (NYSE) and NASDAQ, it has long been the financial center of the US. Wall Street is home to the most extended capital marketplace, where capital is reared and allocated. It promotes the rise of capital for business and government by issuing stocks and bonds. It offers a platform for investors—big or small—to put their savings into various assets. Still, even though Wall Street plays such a prominent role in our current economy, heavy risks exist in the world's financial capital. First, high leverage is a practice that several Wall Street firms undertake by borrowing vast sums of money to finance their investments. While increasing the potential returns, it magnifies significantly the risks and losses. Investors were thus betting on the increase in property values in speculation trading, especially in the real estate sector. These are the sort of high-risk, high-reward ideas that will build and build and finally lead to a giant crash like it did in 2008 after years of poor results. Before the crisis, the market expanded credit and complex financial

products linked to real estate. Low interest rates and lax lending standards allowed for growth in homeownership and investment in real estate. The mortgage-backed securities were critical pieces of packaging and selling by firms on Wall Street that had initially regarded these as safe investments because of the real estate asset backing. There are also global imbalances with Wall Street, with countries like China and Germany running large trade surpluses in the U.S. and our economy running a large trade deficit. These imbalances lead to massive capital flows in the United States, which is another reason for the inflation of the housing bubble and the increase of systematic risk.

Current Situation:

The year is 2008, the United States and the entire world were in a mass panic due to the sudden economic crisis on Wall Street. Lehman Brothers, one of the largest investment banking firms on Wall Street, filed for Chapter XI bankruptcy protection, which is the largest of its kind today. With the company's heavy involvement in the subprime mortgage crisis, as housing prices fell and defaults increased, it proved to be a disastrous decision. However, Lehman Brothers is not the only company involved in this market, with giants like Countrywide Financial and Northern Rock also playing an essential role in the downfall of the global economy. This crisis, however, all started after the collapse of the housing bubble in the U.S., which led to mortgage negligence, foreclosures on houses, and the devaluation of all housing-related securities. These things preceded the Great Recession and were followed by household spending and business investment reductions. While all this is happening inside our country, the rest of the world is starting to feel the effects of our economic downfall. Countries like the UK, Scotland, and China are all facing economic slowdowns, with banks in these countries facing bankruptcy.

Possible Solutions:

To effectively tackle the underlying issues and consequences of the 2008 Wall Street crisis, it is crucial to develop a rounded strategy. This strategy should encompass measures such as enhancing supervision, promoting transparency, and fortifying risk management. An essential aspect of this approach involves strengthening frameworks on a scale and aligning standards to maintain financial stability and prevent future disruptions. This would entail establishing stricter capital requirements, increased scrutiny over financial activities, and more robust oversight of international financial transactions. Similarly, it's imperative to enhance transparency within the financial markets significantly. This involves mandating thorough disclosures about the characteristics and risks of complex financial instruments like derivatives. Elevating openness in this way would enable investors, regulators, and other market participants to discern the risks inherent in these products more effectively.

Questions to Consider

1. What regulatory measures should be implemented to prevent future occurrences of a financial crisis similar to 2008?
2. What is the appropriate level of government intervention in financial markets, and how should it be implemented to protect the people's interests?
3. How can Wall Street organize the entry and expansion of international corporations into the U.S. market while ensuring they support domestic economic interests?

Topic B: The Fed and Monetary Policy

Background Information:

The phrase monetary policy encompasses the actions undertaken by the Federal Reserve to support national economic goals. These actions include economic decisions such as determining the amount of money pumped into the economy. Throughout American history, monetary policy has been subject to change and reform. As the housing market collapses and major financial institutions stand on the brink of failure, the Federal Reserve has taken drastic reform and steps to pump liquidity into the frozen financial system. By plummeting interest rates to near 0 and setting up numerous emergency funding facilities, the Federal Reserve aims to keep major players afloat. The long-term impacts remain uncertain, but it is clear the Federal Reserve has embraced its role as lender of last resort to prop up the banking system.

Current Issue:

As we clamor out of the depths of the greatest economic upheaval since the Great Depression, the Federal Reserve has embarked on a path of unprecedented intervention to stabilize the

imploding financial system. Following the massive bailouts of firms like Bear Stearns and AIG, the Federal Reserve has taken drastic reformative measures to keep the major banks and Wall Street firms afloat during this crisis. The Fed's balance sheet has ballooned over four trillion dollars. And now, in an effort dubbed "quantitative easing," the central bank has begun buying up mortgage-backed securities and treasuries in huge numbers to lower longer-term interest rates and free up lending. The goal is to save the banks from themselves and their terrible bets on housing and toxic securities. For Main Street, the Fed aims to prevent an even more painful hit to jobs and livelihoods. However, questions remain about the long-term efficacy and risks of the Fed's unprecedented activism and balance sheet expansion. For now, as we find ourselves in uncharted waters during this crisis, the watchword is "whatever it takes" when it comes to the Fed's brave new world of monetary policy.

Questions to Consider

1. What reformative measures should the Federal Reserve take to stabilize the economy during this time of uncertainty?
2. What are the potential long-term effects and risks of The Federal Reserve growing its balance sheet through "quantitative easing purchases"?
3. How can we reform monetary policy to ensure another economic crisis does not ensue?

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Dossier

1. **Warren Buffet:** Founder and CEO of Berkshire Hathaway, Buffet took a crucial role during the 2008 crash. Renowned for his investment strategies and knack for running, he took the financial chaos to invest in companies facing large deficits.
2. **John Paulson**: Paulson came out like a bandit during the crisis for his bet on the subprime mortgage market. His successful mortgage-backed securities made him a household name synonymous with investment management.
3. **Jamie Dimon**: The one-time CEO of JPMorgan Chase helped steer his bank through the financial crash. Dimon's strategy in risk management led JP Morgan to fare the storm better than other banks.
4. **Carl Icahn**: Ichan had the reputation of a financier who bought out companies' stakes under their actual cost and then pressed for relevant changes to gain shareholder value. He skillfully seized possibilities during the crash using his reputation as an investor.
5. **Richard Fuld**: Richard “Dick” Fuld was the last Chief Executive Officer of Lehman Brothers before the company's closure. He was the president when the company pushed through with its filing for bankruptcy, which is the biggest in U.S. history. Fuld's leadership decisions and management were put into question during the fallout.
6. **John Mack**: Before the helm of Morgan Stanley, John Mack navigated the firm during the financial crisis, where he got a crucial capital infusion from Mitsubishi Financial Group that strengthened the financial position of Morgan Stanley and helped regain the confidence in the minds of investors.

7. **Ron Carey**: At the time of the financial crash, Ron Carey was the President of the International Brotherhood of Teamsters, who fought to save jobs by easing the financial distress of workers through various initiatives.
8. **Lloyd Blankfein**: As CEO of Goldman Sachs during the financial crisis, Lloyd Blankfein played a pivotal role in navigating the firm through challenging times, securing a government bailout, and leading its recovery amidst significant public scrutiny and critique.
9. **Henry Paulson**: as the Secretary of the Treasury under President George W. Bush, Henry Paulson played a crucial role in shaping the government's response to the financial crisis. He was instrumental in the implementation of the Troubled Asset Relief Program (TARP) and facilitated the bailout of several major financial institutions.
10. **Ben Bernanke**: As Chairman of the Federal Reserve during the financial crisis, Ben Bernanke spearheaded monetary stimulus initiatives aimed at stabilizing the financial markets and averting a complete economic downturn.
11. **Timothy Geithner**: During the financial crisis, Timothy Geithner, President of the Federal Reserve Bank of New York, collaborated with Ben Bernanke and Henry Paulson to orchestrate the government's response. Their efforts included rescuing troubled financial institutions and implementing stress tests to evaluate bank solvency.
12. **Ken Lewis**: Ken Lewis, during his tenure as CEO of Bank of America, orchestrated the acquisition of Merrill Lynch amid the financial crisis, a decision that later faced scrutiny over concerns regarding due diligence and management practices.
13. **George W. Bush**: During his presidency, George W. Bush navigated a tumultuous period characterized by the collapse of significant financial institutions and enacted emergency measures to stabilize the economy.

14. **Alan Greenspan**: Alan Greenspan's tenure as Chairman of the Federal Reserve was marked by relaxed monetary policies and deregulation, which some critics believe significantly contributed to the accumulation of risk within the U.S. financial system leading up to the financial crisis.
15. **Mervyn King**: Mervyn King, the Governor of the Bank of England, had a daunting task of ensuring the stability of the UK banking sector during the financial crisis and cushioning the economic impact of the crisis on the British economy.
16. **Abby Cohen**: As one of the senior strategists at Goldman Sachs, Abby supplied critical insights and analyses of market trends and economic indicators in the middle of the financial crisis—guiding clients on investment strategies during those times of unprecedented uncertainty.
17. **Hank Greenberg:** As the CEO of AIG, Greenberg managed the company during a time that almost made it bankrupt in the financial crisis, where there was a need for almost a billion-dollar government bailout to rescue the situation and make it more systemic.
18. **Stan O'Nea**l: O'Neal led Merrill Lynch into very aggressive and strategic exposure in the subprime mortgage markets that has left the firm very exposed to the adversities of the housing crises. He ultimately led the firm to be acquired by Bank of America.
19. **Jimmy Cayne**: Cayne, the former CEO of Bear Stearns, has come in for a great deal of criticism for his leadership during the financial crisis, essentially as Bear Stearns was one of the foremost significant financial institutions to be crushed on account of the subprime mortgage catastrophe.
20. **Chuck Prince**: During his time as the Citigroup CEO, Chuck Prince came into much criticism because of Citigroup's vast exposure to subprime mortgage assets, and thus massive losses came, and a government rescue package came to avoid the fall of Citigroup.
21. **Angelo Mozilo**: As the CEO of Countrywide Financial, Angelo Mozilo was allegedly involved in predatory lending and mismanagement in the years preceding the housing boom. Finally, these allegations made Countrywide's stock price fall rapidly, and Bank of America acquired it.

22. **Bill Clinton:** Clinton's presidency as the 42nd President of the United States took office with policies favoring home ownership and financial deregulation, which critics, in effect, believe materially contributed to the development of the housing bubble and the financial crisis.
23. **Gordon Brwon:** As the Prime Minister of the United Kingdom, Gordon Brown has been at the forefront of leading international efforts to stabilize financial markets and restore global economic confidence during the current financial crisis.
24. **Phil Gramm:** The Senator from Texas is widely known for being a part of the process of financial deregulation, especially for advocating the repeal of the Glass-Steagall Act, amongst other financial regulatory guidelines. Many of his legislative acts in the sphere are considered to be significant causes that provoked the financial crisis.
25. **Kathleen Corbet**: The former CEO of Standard & Poor's came under heavy criticism about how the rating agency failed to accurately judge the risk level of mortgage-backed securities before the financial crisis.
26. **Wen Jiabao:** The Prime Minister of China, Wen Jiabao, had tried to respond to how the country handled the global economic meltdown by creating a stimulus package that could cushion domestic demand and spur economic growth.
27. **Andy Hornby:** As the CEO of HBOS, Hornby steered the organization into its collapse into the hands of Lloyds Banking Group amid claims of its reckless lending and poor risk controls.
28. **Bernie Madoff:** Considered to be one of the greatest swindlers in history who, during his tenure as the chairman of NASDAQ, conducted monstrous financial fraud based on a pyramid scheme, which took billions of dollars from investors and became the embodiment of financial fraud in those years.

29. **Steve Crawshaw:** As chief executive of Bradford and Bingley, Steve Crawshaw was among those running the lender at the time of its nationalization during the financial crisis that government intervention in 2008.
30. **David Oddsson**: The then Prime Minister of Iceland, was greatly criticized for mishandling the country's banking crisis and the following economic uproar, which triggered countrywide protests and political disorder.
31. **Adam Applegarth:** Applegarth served as the chief executive officer of Northern Rock during its collapse and nationalization in the middle of the financial crisis. His aggressive strategies in expanding the bank and risky lending exposed it to significant vulnerabilities that necessitated governmental intervention to stabilize it.
32. **Fred Goodwin**: The former chief executive officer of the Royal Bank of Scotland is best known for leading the bank into an era of aggressive expansion and high-risk acquisitions that exposed it to the subprime mortgage crisis and needed a government bailout to avoid collapse.
33. **Barack Obama:** As America was grappling with a financial crisis not seen since the Great Depression, President Obama, in the fall, enacted new efforts to help families hammered by the downturn.