Roots and Responses

What deepened the Great Recession, and what did the Federal Reserve do about it?

USH.C.9.1.D "Identify the roots of the Great Recession, beginning with the housing bubble's burst, the global financial crisis, and aggressive responses by the Federal Reserve."

NAME _____ DATE _____

CAUSE OF THE DOWNTURN

A cause is a development that helped start or deepen the Great Recession. Causes include problems in housing and the wider financial system.

Speculators bought extra houses, hoping to resell them for quick profits.

FEDERAL RESERVE RESPONSE

A response is an action the Federal Reserve took to ease the financial crisis after trouble began.

The Fed supplied U.S. dollars to foreign central banks through currency swaps.

1 SORT

8 items

For Part 1, circle CAUSE or RESPONSE for each event; for Part 2, choose two items and explain how you knew where each belongs.

1.	Home values plunged after years of rising prices.	CAUSE RESPONSE
2.	More borrowers stopped making payments on their home loans.	CAUSE RESPONSE
3.	The Federal Reserve sharply cut its target short-term interest rate.	CAUSE RESPONSE
4.	The Federal Reserve bought government bonds to lower longer-term interest rates.	CAUSE RESPONSE
5.	The Federal Reserve offered emergency loans to financial firms.	CAUSE RESPONSE
6.	Securities tied to mortgages lost value, damaging financial firms.	CAUSE RESPONSE
7.	The Federal Reserve bought mortgage-backed securities to support credit markets.	CAUSE RESPONSE
8.	Fear of losses led banks to stop lending to one another.	CAUSE RESPONSE

2 PROVE IT

Explain your thinking

Pick two items from Part 1. For each one, tell how you knew where it belonged.

ITEM # _____ **HOW I KNEW** _____

ITEM # _____ **HOW I KNEW** _____

3 MAKE YOUR OWN

One of each

For Part 3, write one new CAUSE of the Great Recession and one new Federal Reserve RESPONSE.

CAUSE _____

RESPONSE _____

CHALLENGE

In two sentences, explain how one CAUSE in Part 1 led to a Federal Reserve RESPONSE in Part 1.

Roots and Responses

PART 1 · SORT

#	ITEM	CATEGORY	WHY
1	Home values plunged after years of rising prices.	**CAUSE**	The housing bubble's burst helped trigger the downturn.
2	More borrowers stopped making payments on their home loans.	**CAUSE**	Loan defaults increased losses in the housing market.
3	The Federal Reserve sharply cut its target short-term interest rate.	**RESPONSE**	The rate cut was a Fed action intended to support the economy.
4	The Federal Reserve bought government bonds to lower longer-term interest rates.	**RESPONSE**	Bond purchases were a Fed action intended to make borrowing easier.
5	The Federal Reserve offered emergency loans to financial firms.	**RESPONSE**	Emergency lending was a Fed action intended to keep credit available.
6	Securities tied to mortgages lost value, damaging financial firms.	**CAUSE**	Losses on mortgage-linked investments helped spread the crisis.
7	The Federal Reserve bought mortgage-backed securities to support credit markets.	**RESPONSE**	These purchases were a Fed action intended to support lending.
8	Fear of losses led banks to stop lending to one another.	**CAUSE**	The lending freeze deepened the financial crisis.

PART 2 · PROVE IT

Accept any explanation that names the deciding feature from the rule box for the chosen item.

PART 3 · MAKE YOUR OWN (SAMPLE ANSWERS)

- **CAUSE**: Some lenders approved risky home loans that borrowers could not afford.
- **RESPONSE**: The Federal Reserve expanded its lending to banks to help them meet short-term cash needs.

Challenge: As mortgage-linked securities lost value, financial firms faced losses that threatened lending. The Federal Reserve offered emergency loans to financial firms to help keep credit available.

For Part 2, accept explanations that identify an item as a development that worsened the downturn or as an action taken by the Federal Reserve to ease it. For Part 3, accept historically accurate examples not repeated from Part 1.