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***Business relationship between the US and Austria in
the view of the present and historical economic
environment***

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I. Proposal

Economists speculated that in previous months a downturn in the United States would be softened globally by the economies of emerging nations. However the current economic tsunami created by the real estate bubble and subsequent credit crunch in the United States has released a wave of global anxiety. Many European Union members have found themselves scrambling to shore their banks in a business climate that is teetering on collapse. We are all witnessing a herculean effort by many nations coming together in working through this crisis. A vital dynamic is the strong economic ties between the European Union and the United States, a relationship that needs to be enhanced. This can be accomplished through collaboration and improving cross cultural ties. I will explore the present and historical economic environment between Austria and the United States to see how protectionism, regulation, capitalism, free markets and other factors define the business relationship between the two countries. Perhaps my exposure to Austria's culture will aid in creating a better understanding of some of the intangible aspects of my research.

II. Introduction

The United States has found them self intertwined within the worst recession in more than a half century. This current economic crisis has been known to be referred to as, "the largest downturn since the Great Depression of the 1930s." (Petrov) The previous two recessions that have occurred in United States history, each lasted a total of eight months. The recession, which is said to have begun in 2007, which was due to the fall of the real estate market, does not seem to have an end any time in sight. It could possibly turn out be the longest recession since the Great Depression, which lasted twelve long years.

United States Federal Reserve Chairman, Ben Bernanke commented that the worsening financial crisis could result as a major weight on United States business growth. (MSNBC) Unemployment has risen to a twenty six year high of nine point four percent in May of 2009. (MSNBC) This will likely continue to rise even once the economic growth finally resumes.

Bernanke claims that the economy will have another downturn in the second half of the 2009 year. (MSNBC) Consumers will be spending less money, unemployment will continue to rise, paychecks will continue to diminish and government tax rebates will fade away. This will severely affect the world as a whole.

The recession may be causing significant personal pain for many families and individuals but the movement towards a more penny-wise mentality is a step in the right direction for the nation as a whole. This action could turn into a healthy process for the economy and help out many families in the long run.

It is said that the European Union's relationship with the United States is by far the most important economic relationship in the world. It is estimated that two billion dollars per day are spent trading goods and services. (MSNBC) Without the trading between the United States and the European Union, the entire world would feel the downturn of this action.

Trade is widely needed to manufacture goods and services within all countries.

Leaders of the European Union stated that they are more than determined to work hand in hand with the United States to counter the economic downturn. (Ebeling) The United States would like Europe to spend more money to stimulate the economy. Europe does not agree with the United States plea and claims that they have been participating enough in the stimulation. (Ebeling) Europe would like to see tougher financial rules to be applied before they participate any further. They believe these rules are needed to solve some of the problems that caused the current crisis in the financial system. The European Union leaders said that they are particularly pleased that global financial regulation and supervision will be strengthened. (Ebeling)

Having the economy in shambles has affected many college aged students like myself. This catastrophe has made it extremely trying for college graduates to find a job, undergraduate students to find part time work and for nonstudents to find any type of work. This has left many of us college student left taking out loans, begging for money from our parents or simply not being able to attend school due to the lack of funds.

College students across the United States have found themselves double checking their bank account balances before they foolishly spend any of their saved money. The lack of funds has pushed college students to attempt to attend class without the required books as one of the ways to keep themselves from drowning in debt. These are all thoughts that rarely passed through some students minds before the crisis.

Millions of people across the globe are feeling the economic woes of this financial climate. It is affecting people who thought they personally could never be affected. Strong acts to change the current situation need to be carried out to turn this whirlwind around. A bounce back in the housing market, the stock market, consumer spending and employment are needed to even begin to dig ourselves out of this massive black hole.

III. Housing Market

The financial crisis was triggered, in the first quarter of 2006, when the housing market made a turn for the worse. (Huliq) A number of mortgages, designed for a subset of the market, were made with a balloon interest payment attached. That implied that the mortgages would be refinanced within a short period of time to avoid the incline in the mortgage area. (Huliq)

The mortgage refinancing projected that housing prices would continue to appreciate. Therefore, the collapse in the housing market necessarily meant a wave of future defaults in the subprime area.

The fall of housing prices from the peak price levels, previously reached in earlier years, dug deep into the building of homes and also the purchasing of homes. This caused a large rise in mortgage foreclosures, which then turned into hundreds of billions of dollar losses within the nation's leading banks and a tightening of credit. (Schlisserman)

Housing prices have greatly reduced since November 2008. Construction workers in the United States have been breaking ground on the smallest number of new homes in at least a half century. This downturn in the real estate market is caused because of the deepening economic contraction raised by the risk of deflation. (Schlisserman)

The cost of living has dropped one point seven percent in recent months which is far more than economists had predicted. Not including food and energy which have been unchanged from the previous months. Plans for starting a new home have fell eighteen point nine percent to an annual rate of six hundred and twenty five thousand in just a few short months. (MSNBC)

In this current quarter, residential construction has significantly worsened, which will likely lead to the economy shrinking by six percent or more. (Schlisserman) Analysts say this will be the largest decrease since the early 1980s. (MSNBC) This figure helped strengthen the case for the Federal Reserve to lower its key interest rate target. This new target will be a record

low today and will signal a willingness to use any available tool to restore growth.

Senior United States economist at Deutsche Bank Securities Inc., Carl Riccadonna, stated "just as housing continues to fall faster and farther than most thought possible, we wonder if that might be true with the broader economy as well." (MSNBC) He says this in conjunction with risks of deflation that could be increasing in the near future. (MSNBC)

Democratic lawmakers are continually looking for a new way to address the housing crisis. This crisis caused the collapse in credit markets and has caused almost one trillion dollars of write downs and losses at financial firms. (Schlisserman) President Obama has committed himself to reducing mortgage foreclosures.

New construction markets have been hit hard during the declining value of homes. Consumers are cutting back purchases of new homes. Since February 2009, building permits have declined fifteen point six percent causing it to be the lowest percent recorded. (MSNBC) Single family homes have declined sixteen point nine percent and multifamily homes has fell twenty three point three percent since February 2009. (MSNBC)

It is said that, by banks extending mortgages to homeowners who they knew would be unable to repay the loans added tremendous flames to the fire. These lenders thought they could get a quick return on the deal and then turn around and sell the bad loan to an aftermarket mortgage company. This would be taken advantage of so they could be able to avoid negative ramifications from those buyers that could not pay. The idea was that once all this was done that once the foreclosure came, it would be someone else's problem to deal with.

Mortgages began to fail even after market lenders tried to make up for what was lost by buying more and more mortgages. It was hoped that by buying these mortgages that it would end up offsetting the money lost from the failing mortgages and then after some time passed the market would turn around.

Buying the failing mortgages was not the answer because there was not enough profit making mortgages to compensate for the failing ones. (Business Week) The aftermarket lenders starting buying more and more failing loans, those loans came back to hurt them once homeowner began to declare bankruptcy. Once homeowners started to declare bankruptcy, insurance companies, credit card companies and other lenders felt the aftershock and began to suffer themselves.

On the other side of the housing market, if you have the money saved, there is no better time to buy. Houses are being sold at lower prices and home purchasers are in quarrels over foreclosed homes with a cheap price tag. Even though these housing are being fought over, this is not being done on a large enough scale to turn the economy around.

IV. Hedge Funds

The most identifiable event in the start of the financial crisis was the collapse of two highly levered managed hedge funds. These hedge funds invested in subprime asset backed securities. As the prices of the collateralized debt obligations began to fall with the defaults of subprime mortgages, lenders to the funds demanded more collateral. (New York Magazine)

Merrill Lynch had a hand in one of these collapses. The company went around selling commercial paper to hedge funds with promises of buying it back a year later and guaranteeing the hedge funds a minimum return. These sales were to be on a one year, off the balance sheet, credit agreement. (Reuters) One company claimed that Merrill was offering a floor return so that the risk would be returned to their company.

Merrill Lynch was forced to seize eight hundred million dollars of their assets and tried to auction them off. (CNN) These assets were managed by Bear Stearns. Only one hundred million dollars worth of their assets could be sold due to the illiquid nature and declining value of the assets. (CNN) The devaluation of the assets then became quite evident. Merrill was able to sell

enough of the assets, which were used as collateral for loans made to the two funds, to cover its exposure to the ailing funds.

Engaging in this type of deal making with hedge funds, Merrill was able to keep much of its exposure to these risky securities off the books. Also, at the same time, were able to publicly minimize its exposure to investors and employees.

Investors of Merrill Lynch had no idea how bad the situation had escalated until the company finally came clean about its losses and took a seven point nine billion dollar write down on their risky securities. (Reuters) The Merrill Lynch write out was one of Wall Street's largest write out ever.

Bear Stearns also sold one billion dollars of risky mortgage loans to a hedge fund under a one year agreement called a mandatory auction call. (CNN) This was another way to guarantee the hedge fund got a minimum return.

In an attempt to minimize further auctions at fire sale prices, Bear Stearns injected three point two billion dollars worth of loans to keep the hedge funds afloat. (CNN) Even though Bear Stearns had tried to salvage the funds, the damage had already been done. A month after they injected the funds, they lost over ninety percent of their value. (CNN)

In the end, the two funds suffered double digit losses after making bad bets on securities backed by subprime loans. The subprime market, which gives home loans to borrowers with bad credit, has been muddy by rising defaults.

The collapse of these two large hedge funds have been said to have had a great impact on the current economic status. Billions of dollars were being dealt with in these funds and were lost. These off the book, sneaky acts only ended up causing more money to be lost and for the company's names to be in the headlines, all of which they were trying to avoid in the first place.

V. Unemployment

President Obama continually states his continuing concern for the economy that cannot keep the unemployment level from rising. With that concern, the President has promised to use Federal money to create hundreds of public works projects for the summer of 2009. (MSNBC) These projects are hoping to create or save six hundred thousand jobs.

These jobs, under the stimulus law, will cover many different fields of work ranging from parks and wastewater projects to improvements at military facilities, airports and veteran medical centers. (MSNBC) The administration views summer as a peak time period for stimulus spending. The better summer weather allows more public works construction and federal agencies to have their work requests fulfilled.

Health and Human Services will provide funding for one thousand one hundred and twenty nine health centers which will in turn expand service for three hundred thousand patients. (MSNBC) One hundred and seven national parks will be improved. (MSNBC) Veteran Affairs have plans to begin work on ninety medical centers in thirty eight states. (MSNBC) The Justice Department will fund five thousand law enforcement jobs along with two hundred new rural waste and water system projects by the Agriculture Department. (MSNBC) Also including the Environmental Agency, that will begin the cleanup for twenty Superfund sites. (MSNBC)

President Obama claims that "we've done more than ever, faster than ever...to get the gears of the economy moving again." (MSNBC) With that being said, he is still not satisfied with the current process thus far and has pressed his Cabinet to keep working hard on decreasing the rising unemployment rate.

The President also added he was pleased that the economy lost fewer jobs in May 2009 than experts had anticipated. He sees this as a sign that things are moving in the right direction. He states that "we are still in the middle of a very deep recession and it's going to take a considerable amount of time for us to pull out." (MSNBC)

Coming from a family that has an unemployed parent due to the financial crisis, I do not find that everything is being done to save jobs. Jobs are being created that help a small number of people be employed but only for a short matter of time. These jobs that are being created are not full time jobs that will keep people safely out of the unemployment statistics. The projected jobs help stop the collectors from calling for a couple of months but have them knocking on your door again soon thereafter.

Obama claims that as many as one hundred and fifty thousand jobs have been saved or created by the stimulus plan thus far. (Herszenhorn) Government reports have shown the economy has lost more than one point six million jobs since Congress approved funding for the program in February 2009. (MSNBC)

President Obama continues to say "our ultimate goal is making sure that the average family out there, mom working, dad working – that they are able to pay their bills, feel some job security, make their mortgage payments." (MSNBC)

Possibly having to move out of our house, sell one of our cars and be worried about where the next amount of money to pay for groceries, school, insurance and bills would be coming from, is one of the scariest things my family has gone through in the previous eight months. Finding a secure job that will keep one of my parents employed until their retirement date has become a larger task then ever expected. These are all common things that any middle classed or lower classed person or family is worrying about these days due to the fact of the economy.

VI. Stimulus Package

Congress passed a one hundred and seventy billion dollar tax rebate meant to stimulate the economy. After passing this stimulus package, it only ended up boosting the GDP during the second quarter.

In February 2008, Congress gave the final approval for a one hundred and sixty eight billion dollar economic rescue package. (Herszenhorn) This

included rebates for taxpayers and tax breaks for businesses. Former President Bush hoped this would restart springtime spending and ignite the slowing economy.

This stimulus package was brought on having only two choices. These two choices were; a more expansive and expensive stimulus plan sought after by the Democratic people or the House package that will not add to Social Security recipients and disabled veterans.

The more expansive and expensive plan would have included a large rise in home energy subsidies for low income families, extend unemployment benefits, tax credits for alternative energy and tax incentives for the coal industry.

Bush claimed that "this plan is robust, broad based, timely, and it will be effective." (MSNBC) With the war in Iraq, issues involving children's health insurance and spending levels helped with the approving of the economic package. These issues all arose two weeks after Bush told Congressional leaders that he wanted a plan for the ever approaching crisis. (MSNBC)

The Senate expanded the House plan to include payments for about twenty million social security receivers and two hundred and fifty thousand disabled veterans who would have not qualified because they do not earn an income. (Herszenhorn)

Nancy Pelosi, Congresswomen of California, stated "We are making history. What has passed the Congress in record time is a gift to the middle class and those who aspire to it in our country." (MSNBC)

The plan is set to provide tax rebates of up to six hundred dollars for individuals and up to one thousand two hundred dollars for couples filing jointly. Additional payments of three hundred dollars will be given to families with a child and a minimum payment of three hundred dollars for individuals who pay less than that in income taxes.

Payments will be reduced for individuals with adjusted gross incomes above seventy five thousand dollars and couples with incomes above one

hundred and fifty thousand dollars. The wealthiest taxpayers will receive nothing from the stimulus package.

Within the stimulus package there are rebates and business incentives. Two hundred and fifty thousand dollars in expenses can be written off immediately. This was done in hopes that this will help jump start the slowing economy with new spending.

The stimulus package will cost one hundred and sixty eight billion dollars over two years. (Herszenhorn) Most economists said that government action is needed to shorten the recession. Many questions have arose on whether or not the plan would work quickly enough because rebate checks did not go out for twelve weeks after the package was agreed upon.

Many lawmakers questioned whether the package was the right way to fix the problem. They argued that it did not do enough to help the distressed homeowners and that it harmed the economy by increasing the deficit. Some believe that Congress took one hundred and fifty billion dollars and "threw it into a mud puddle." (Gomstyn)

VII. Bailout

At this current time the Federal Government is taking much more concern in the falling economy than in the prospects of inflation getting out of control. The ever slowing economy should cause inflation to moderate within the next year. Bill Bernanke stated a warning of economic consequences if the bailout is not enacted and if credit woes continue. (MSNBC) Neither businesses nor consumers would be able to borrow money, which could then produce the world's largest economy being brought to a virtual halt.

Financial experts are concerned that the decisions the government has taken to bailout below par companies could be keeping the credit crisis from reaching a bottom which is ultimately delaying the economic recovery. (Gomstyn)

With government bailouts, the declining prices will occur at a slower pace than would occur with bankruptcies. Many experts say that these government bailouts are just hindering the process of bankruptcies. (Gomstyn)

Some experts would then agree that a bankruptcy might be the better option for the economy. These experts believe also that government bailouts will encourage businesses to make irresponsible decisions with the assumption that taxpayer money will be used to serve as a cushion for when they hit a damaging wall. (Gomstyn) If a business cannot exist without a government bailout, the next question is whether or not it will be able to exist on its own after a bailout.

Critics of government interventions are firm believers that the bailouts are interrupting the normal cycle of business. With the interrupted cycle happening, the other larger companies are flourishing while the other less successful companies are falling. (Gomstyn) There continue to be the people claiming that the bailouts are helping big companies and executives at the price of the American people.

The financial market and credit crisis worsened during the summer of 2008. (Isidore) This caused the Government and the Treasury Department to push trillions of dollars into the economy through a variety of programs. Beyond the seven hundred billion dollar bailout, which is being used to replenish banks and car companies, the government started creating other programs to support the ever struggling financial system.

The government has promised twelve point two trillion dollars worth of support and has since only spent two point five trillion dollars of that allotment. (MSNBC) They have also collected more than ten billion dollars in dividends and fees. (MSNBC)

The programs that have been created have guidelines. These guidelines are set out to limit exactly as to what the money is to be spent on. Not all of the money that is allotted has been appointed to a particular fund.

The government has put forth the largest amount of money at three trillion dollars for market funds. The Treasury had originally only guaranteed

up to fifty billion dollars in relief to market funds but the Federal Reserve extended this. (Business Week) The Federal Reserve has had to step in and purchase illiquid assets to help meet obligations. The Treasury has currently received eight hundred and fourteen million dollars in fees from participating with mutual funds. (Business Week)

A twenty five billion dollar loan was received by the auto industry in September of 2008. (Quinn) This was intended to aid the industry in the push to build more fuel efficient and environmentally friendly vehicles. The main beneficiaries were General Motors, Ford and Chrysler companies which have been referred to as "The Big Three."

Fuel efficient cars have been a large part of the going green campaign that is sweeping the United States. This movement has allowed many companies to manufacture vehicles that are as efficient in gas mileage as vehicles that are already being produced in Europe. These vehicles will be put into the market with foreign vehicles with a cheaper price tag than European models that are currently being sold in the United States.

European auto companies that are selling inside of the United States are not the ones looking for a bailout. These companies are holding their own inside this economic recession and have been turning out new models that help with the current situation. (Quinn) These models are becoming largely popular to invest in and have been a far better choice for the environment also.

The money that was loaned to the auto industry is likely never to be seen again. The auto industry cannot be saved by the small amount of twenty five billion dollars. This amount of money will only soften some of the blow.

President Obama believes that the fall of the auto industry is due to the repeated strategic mistakes that have been made by all three of the main auto industry companies. (Quinn) He did not believe that allowing the collapse of all three main auto companies would help the economy and therefore agreed to loan them the money.

Bernanke has spent much of his time trying to reassure the country that the Fed will do everything it can to provide relief through this bailout. Many financial analysts believe that interest rates could be lowered again in the approaching months to help in the relief. (Quinn)

The large company bailouts that have taken place have been a significant part in the economic crisis. The idea to give those large companies money to keep their company from becoming bankrupt has not seemed to have been followed through with. Those companies did not use their money in the most sensible way and therefore has pushed a large number of their employees into unemployment, their stocks to fall and revenue for the company to come to a screeching halt.

VIII. Banks

Banks in Austria, Italy and Sweden have invested and lent heavily in Eastern Europe. This action could produce massive losses if the value of their assets began to decline. The damage of non-payment, combined with atavistic protectionist instincts coming to the fore all over Europe, could start to break apart the European Union's proudest achievement, the single market. (MSNBC)

A collapse in the East would leave people questioning what would happen to the rest of the European Union in the future. It could destabilize the euro and could also stop or seriously slow down the growth of the European Union. (Filger)

With the fall of communism, former East European states were encouraged to borrow heavily by the West which led the Austrian banks to be the first to lend. (MSNBC) Governments in Eastern Europe borrowed huge amounts to finance the modernization of their industries.

Austria borrowed with the idea that lower cost industrial goods and commodities would be given to consumers throughout Western Europe. (Filger) There was also added pressure for Eastern Europe to borrow money in euros at lower interest rates for homes and consumer durables.

The balance sheets of the European banks are filled with non performing assets. Austria has more than two hundred and fifty billion dollars in bad assets on their balance sheet of the Austrian banks. (Ebeling) The two hundred and fifty billion dollars equals sixty two percent of the nation's gross domestic product. (Ebeling)

The United States banks held just as toxic assets in the same ratio to gross domestic product. The United States had a total of eight point seven trillion dollars in bad assets. (MSNBC) If the United States banking disaster was on the same scale as Austria's, it would require a dozen programs of over a billion dollar programs to cover the massive holes in the balance sheets. (MSNBC)

February 2009, the United States Treasury Secretary released the latest effort to stabilize the United States banks and credit markets. The Secretary stated that bold action needs to be taken to fix the banking system that is standing in the way of recovery. (MSNBC) This plan will release the other part of the seven hundred billion dollars that was set aside for the Troubled Asset Relief Program.

Banks will have to take part in a "stress test." (MSNBC) This test will show if a bank will be able to absorb future losses in the event of a severe economic decline. The banks that cannot meet the requirements will have access to contingent equity which will be in the form of preferred shares convertible into the common sort.

Banks that receive part of this money will not be able to take over healthy rivals for money until they have repaid taxpayers. They will also have to make public their loan volumes and their unprincipled assets. Banks will not be subject to lending quotas.

Banks in the United States continually seek the European Unions' help. Money in the European Union has already been in large quantities pushed into the United States banks. This money boosted the economy for a short while but help is still needed to keep us afloat. The European Union is also looking for help within their economy and the United States is doing what it can to help.

IX. Possible Solutions

While there are no positive answers for if there is an effective way to resolve the current economic recession, many people feel they have the tools or ideas to help move things into the right direction.

Tony Fratto, White House Deputy Press Secretary, said "the most important things we can do for the economy right now are to return the financial and credit markets to normal, and to continue to make progress in housing, and that's where we'll continue to focus." (Economist) He also continued to say "addressing these areas will do the most right now to return the economy to growth and job creation." (Economist)

The Treasury Secretary believes that the only path to a more stable system will be to put more capital into the system and to start utilizing greater constraints. He claims that this can be achieved without having to deprive the economy of innovation. (Economist)

The United States Treasury Secretary said the unprecedented government emergency measures have since made some headway in bringing down key borrowing costs. (Economist) Even though this is taking place because of the shock to the system, the healing process will take a much longer time.

European leaders have been trying to figure out the best way to avoid these disasters. The biggest problems, it is believed, should land on the International Monetary Fund.

Adopting the euro immediately in the western countries might help to elevate some of the pain when thinking about losing their single currency. The European Central Bank and the European Commission do not support this form of "euroisation." Adopting the euro is not viewed as a good idea to some in a few of the bigger countries. This is because a premature entry could weaken the euro.

The main priority is to stop the further currency collapse. Once that is under control the next priority is to prop up banks that are responsible for the foreign currency loans that have gone bad.

There is not a single solution for this horrific crisis that cannot seem to straighten itself out. The ideas put out by economists or the actions that are already underway from President Obama have certainly done some good but the world economy is yet to spring back.

X. Conclusion

It is very clear that the Austrian and United States economies have many problems to sort through before any kind of a miraculous recovery can occur. Fingers have been pointed in every direction as for who is to blame but no matter where they are being pointed; there is no way to find a single person, company or the government to blame for what has caused this whole dilemma.

President Obama with the help of many government officials and the Federal Reserve are going to take every advantage that they can to turn this economy around. Many jobs are still going to be lost, wages are going to be unearned and families are going to continue to suffer for many more months to come. Graduates and qualified career people are going to continue to face the cycle of unemployment as companies continue to realize they cannot hire due to their current financial situation.

Banks will still see tight restraints on loaning money and people will continue strive for those loans more than ever. Money will continuously be saved in fear and consumption levels drop due to this. With summer around the corner, people will be taking less expensive summer vacations and driving less to get to those destinations. Funds are simply running dry.

Ties between the United States and Austria are in clear need of tightening and advancement. If we acquire a better relationship between the two cultural ways of life, we would be able to help each other with the debts that we are currently facing. Austria has already lent a helping hand in the

current crisis but we, the United States, still need their assistance to pull ourselves out of this.

With tighter ties between Europe and the United States, there could be collaboration of ideas with a couple stronger solutions discovered versus each country attempting to come to an individual decision alone. Working together would then in turn leave the countries closer and form a stronger, more effective relationship between large producers of goods and services.

The United States and Austria have made mistakes, fallen to the lowest possible point and have been faced with dealing with a situation that is far beyond the point of a simple solution. We may never get the answers of exactly how and why this has occurred and continues to occur but there is the hope that a couple major decisions can help to move the economy in the right direction.

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