

The causes and effects of the subprime mortgage crisis

Ahmed Ahmed

Abstract

Abstract

At the start of 2009, the subprime mortgage crisis resulted in a downturn in both the US and the UK economies. The purpose of this research is to examine the causes and effects of the subprime mortgage crisis, looking at the process of securitization and how it took part in this recession. During the period of 2000, economic growth resulted in the burst of a housing bubble. The housing market kept growing, with real estate prices increasing at a quick rate. Near the beginning of 2000, when the economy was about to enter an economic slump after the stock market crash, the US government's easy monetary policy created requirements for the real estate bubble. However, according to the regression analysis performed in the paper, it seems like the drop in interest rates did not have an effect on the recession in the US and the UK. The low interest rates created easy credit conditions and more subprime borrowers entered the market. Even though the subprime mortgages were of great risk, this current economic downturn wouldn't have occurred if the banks didn't sell billions of collateralized debt obligations which included subprime mortgages to institutions. Therefore, the monetary policy of the Fed is considered to be a smaller cause of the crisis and securitization as the main problem. This paper also included a comparison of the subprime mortgage crisis and their effects on both countries, the US and the UK.

*Commerce and Finance Scientific magazine Faculty of Commerce Tanta University
2010, January*