

Homework due: January 15, 2013

After watching the *Frontline* video about the financial meltdown, I was surprised at how quickly some of the huge companies in the financial industry crumbled. I knew generally what happened, but did not know the details of what exactly caused the big companies like Bear Stearns and the Lehman Brothers to disappear/go under. It was interesting to see how many discussions and debates had to occur for people to make a decision on the fate of these companies. I do think, however, that these numerous talks were necessary because of the complexity of the issue in terms of the consequences that may occur due to federal action.

I feel like the decisions that Ben Bernanke and Henry Paulson had to make were extremely hard, because there was the whole dilemma of the banks really needing help conflicting with the fact that helping them out would create a moral hazard. The government needed to intervene to prevent a financial disaster from companies from going under, but did not want to step in all the time because the banks would think they would be backed up by the government no matter what. This was the deciding factor when the government decided to let Lehman go bankrupt, which ended up being disastrous for the US economy. In the end, the government had to inject capital directly, which I feel was probably necessary, but clearly an action that citizens would not be happy about. It is obviously unfair for US citizens to have to pay for the actions of private companies. This, however, is a hard topic because this was probably necessary. Perhaps the solution is to make the companies pay back all the aid they received.

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