

Macroeconomics & Global Economics

Presentation 9

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The financial crisis explained by means of an intelligent piece of economics by an unknown author.

The financial crisis explained....

- Heidi is the proprietor of a bar in Drunkardcity. In order to increase sales, she decides to allow her loyal customers – most of whom are unemployed alcoholics – to drink now but pay later. She keeps track of the drinks consumed on a ledger* (thereby granting the customers loans).

(* ledger=a book that a company uses to record information about the money it has paid and received)

The financial crisis explained....

- Word gets around, and as a result, increasing numbers of customers flood into Heidi's bar.



The financial crisis explained....

- Taking advantage of her customers' freedom from immediate payment constraints, Heidi increases her prices for wine and beer, the most-consumed beverages. Her sales volume increases massively.



The financial crisis explained....

- A young and dynamic customer service consultant at the local bank recognizes these customer debts as valuable future assets and increases Heidi's borrowing limit ...
- He sees no reason for undue concern because he has the promissory notes* of Heidi's customers as collateral.

[* promissory note= a signed document containing a written promise to pay a stated sum to a specified person]

The financial crisis explained....

- At the bank's corporate headquarters, expert bankers transform these customer assets into **DRINKBONDS, ALKBONDS and PUKEBONDS**. These securities are then sold and traded on markets worldwide. No one really understands what these abbreviations mean and how the securities are guaranteed. Nevertheless, as their prices continuously climb, the securities become top-selling items.

The financial crisis explained....

- One day, although the prices are still climbing, a risk manager of the bank, (**subsequently fired due his negativity**), decides that the time has come to start demanding payment from Heidi for the debts incurred by the drinkers at Heidi's bar.

The financial crisis explained....

- Unfortunately, Heidi's customers cannot pay back any of their debts to Heidi.
- Heidi cannot fulfill her loan obligations to the bank and claims bankruptcy.
- **DRINKBOND** and **ALKBOND** drop in price by 95%. **PUKEBOND** performs *better*, stabilizing in price after dropping by only 80%.

The financial crisis explained....

- The suppliers of Heidi's bar, having granted her generous payment terms and also having invested in the securities are faced with a new and desperate situation. Her wine supplier claims bankruptcy and her beer supplier is taken over by a competitor.

The financial crisis explained....

- The bank is saved by the Government following dramatic round-the-clock consultations by leaders from the governing political parties. They came up with a miraculous rescue plan that saved the bank.
- The funds required for this massive rescue are obtained by levying a new tax on all the non-drinkers.

The merit for this intelligent piece of economics goes to an unknown author.