



# Over the Cliff: From the Subprime to the Global Financial Crisis

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## Abstract

The financial crisis of 2007 to 2009 can be divided into two distinct phases. The first and more limited phase from August 2007 to August 2008 stemmed from losses in one relatively small segment of the U.S. financial system—namely, subprime residential mortgages. Despite this disruption to financial markets, real GDP in the United States continued to rise into the second quarter of 2008, and forecasters were predicting only a mild recession. In mid-September 2008, however, the financial crisis entered a far more virulent phase. In rapid succession, the investment bank Lehman Brothers entered bankruptcy on September 15, 2008; the insurance firm AIG collapsed on September 16, 2008; there was a run on the Reserve Primary Fund money market fund on the same day; and the highly publicized struggle to pass the Troubled Asset Relief Program (TARP) began. How did something that appeared in mid-2008 to be a significant but fairly mild financial disruption transform into a full-fledged global financial crisis? What caused this transformation? Did the government responses to the global financial crisis help avoid a worldwide depression? What challenges do

these government interventions raise for the world financial system and the economy going forward?

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