

系別：美洲研究所(美國研究組)

科目：英文寫作

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**The Great Crash, 2008**

A Geopolitical Setback for the West

By Roger C. Altman

From *Foreign Affairs*

The financial and economic crash of 2008, the worst in over 75 years, is a major geopolitical setback for the United States and Europe. Over the medium term, Washington and European governments will have neither the resources nor the economic credibility to play the role in global affairs that they otherwise would have played. These weaknesses will eventually be repaired, but in the interim, they will accelerate trends that are shifting the world's center of gravity away from the United States.

A brutal recession is unfolding in the United States, Europe, and probably Japan -- a recession likely to be more harmful than the slump of 1981-82. The current financial crisis has deeply frightened consumers and businesses, and in response they have sharply retrenched. In addition, the usual recovery tools used by governments -- monetary and fiscal stimuli -- will be relatively ineffective under the circumstances.

This damage has put the American model of free-market capitalism under a cloud. The financial system is seen as having collapsed; and the regulatory framework, as having spectacularly failed to curb widespread abuses and corruption. Now, searching for stability, the U.S. government and some European governments have nationalized their financial sectors to a degree that contradicts the tenets of modern capitalism. Much of the world is turning a historic corner and heading into a period in which the role of the state will be larger and that of the private sector will be smaller. As it does, the United States' global power, as well as the appeal of U.S.-style democracy, is eroding. Although the United States is fortunate that this crisis coincides with the promise inherent in the election of Barack Obama as president, historical forces -- and the crash of 2008 -- will carry the world away from a unipolar system regardless.

Indeed, rising economic powers are gaining new influence. No country will benefit economically from the financial crisis over the coming year, but a few states -- most notably China -- will achieve a stronger relative global position. China is experiencing its own real estate slowdown, its export markets are weak, and its overall growth rate is set to slow. But the country is still relatively insulated from the global crisis. Its foreign exchange reserves are approaching \$2 trillion, making it the world's strongest country in terms of liquidity. China's financial system is not exposed, and the country's growth, which is now driven by domestic activity, will continue at solid, if diminished, rates.

This relatively unscathed position gives China the opportunity to solidify its strategic advantages as the United States and Europe struggle to recover. Beijing will be in a position to assist other nations financially and make key investments in, for example, natural resources at a time when the West cannot. At the same time, this crisis may lead to a closer relationship between the United States and China. Trade-related flashpoints are diminishing, which may soften protectionist stances in the U.S. Congress. And it is likely that, with Washington less distracted by the war in Iraq, the new administration of President Obama will see more clearly than its predecessor that the U.S.-Chinese relationship is becoming the United States' most important bilateral relationship. The Obama administration could lead efforts to bring China into the G-8 (the group of highly industrialized states) and expand China's shareholding

position in the International Monetary Fund. China, in turn, could lead an effort to enlarge the capital base of the IMF.

AT BOTTOM

Conventional wisdom attributes the crisis to the collapse of housing prices and the subprime mortgage market in the United States. This is not correct; these were themselves the consequence of another problem. The crisis' underlying cause was the (invariably lethal) combination of very low interest rates and unprecedented levels of liquidity. The low interest rates reflected the U.S. government's overly accommodating monetary policy after 9/11. (The U.S. Federal Reserve lowered the federal funds rate to nearly one percent in late 2001 and maintained it near that very low level for three years.) The liquidity reflected, among other factors, what Federal Reserve Chair Ben Bernanke has called "the global savings glut": the enormous financial surpluses realized by certain countries, particularly China, Singapore, and

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the oil-producing states of the Persian Gulf. Until the mid-1990s, most emerging economies ran balance-of-payments deficits as they imported capital to finance their growth. But the Asian financial crisis of 1997-98, among other things, changed this in much of Asia. After that, surpluses grew throughout the region and then were consistently recycled back to the West in the form of portfolio investments.

Facing low yields, this mountain of liquidity naturally sought higher ones. One basic law of finance is that yields on loans are inversely proportional to credit quality: the stronger the borrower, the lower the yield, and vice versa. Huge amounts of capital thus flowed into the subprime mortgage sector and toward weak borrowers of all types in the United States, in Europe, and, to a lesser extent, around the world. For example, the annual volume of U.S. subprime and other securitized mortgages rose from a long-term average of approximately \$100 billion to over \$600 billion in 2005 and 2006. As with all financial bubbles, the lessons of history, including about long-term default rates on such poor credits, were ignored.

This flood of mortgage money caused residential and commercial real estate prices to rise at unprecedented rates. Whereas the average U.S. home had appreciated at 1.4 percent annually over the 30 years before 2000, the appreciation rate roared forward at 7.6 percent annually from 2000 through mid-2006. From mid-2005 to mid-2006, amid rampant speculation in the housing market, it was 11 percent.

But like most spikes in commodity prices, this one eventually reversed itself -- and with a vengeance. Housing prices have been falling sharply for over two years, and so far there is no sign that they will bottom out. Futures markets are signaling that, from peak to trough, the drop in the value of the nation's housing stock could reach 30-35 percent. This would be an astonishing fall for a pool of assets once valued at \$13 trillion.

This collapse in housing prices undermined the value of the multitrillion-dollar pool of lower-value mortgages that had been created over the 2003-6 period. In addition, countless subprime mortgages that were structured to be artificially cheap at the outset began to convert to more expensive terms. Innumerable borrowers could not afford the adjusted terms, and delinquencies became more frequent. Losses on these loans began to emerge in mid-2007 and quickly grew to staggering levels. And with prices in real estate and other asset values still dropping, the value of these loans is continuing to deteriorate. The larger financial institutions are reporting continuous losses. They mark down the value of a loan or

similar asset in one quarter, only to mark it down again in the next. This self-reinforcing downward cycle has caused markets to plunge across the globe.

The damage is most visible at the household level. Americans have lost one-quarter of their net worth in just a year and a half, since June 30, 2007, and the trend continues. Americans' largest single asset is the equity in their homes. Total home equity in the United States, which was valued at \$13 trillion at its peak in 2006, had dropped to \$8.8 trillion by mid-2008 and was still falling in late 2008. Total retirement assets, Americans' second-largest household asset, dropped by 22 percent, from \$10.3 trillion in 2006 to \$8 trillion in mid-2008. During the same period, savings and investment assets (apart from retirement savings) lost \$1.2 trillion and pension assets lost \$1.3 trillion. Taken together, these losses total a staggering \$8.3 trillion.

Such large and sudden hits have shocked U.S. families. And because these have occurred amid headlines reporting failing financial institutions and huge bailouts, Americans' fears over the safety and accessibility of their deposits are now more pervasive than they have been since 1933. This is why Americans withdrew \$150 billion from money-market funds over a two-day period in September (average weekly outflows are just \$5 billion). It is also why the Federal Reserve established a special \$540 billion facility to help these funds meet continuing redemptions.

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**Part A: Reading Comprehension**

Answer the following questions based on the selection from the article "The Great Crash, 2008" by Roger Altman. You cannot simply copy the text from the article as your answer. You must use your own words to answer based on your understanding. You will be graded on your English and content.

(Each question is worth 15%)

1. How will the current economic downturn affect the United States and its place in the world?
2. Why does Altman feel that other countries are *also* responsible for the crash of 2008?
3. Why was the housing market in the US so important to the crash of 2008?
4. What does Altman think the future role of China will be in political and economic affairs of the world?

**Part B: Extemporaneous Writing**

(Essay is worth 40%)

Write an essay of at least 200 words on the following statement. You should explain why you agree or disagree with the statement.

*"Hollywood makes movies that negatively affect the cultures of other countries. Most Hollywood movies depict loose morality, intense and gratuitous violence, and generally defunct Western values. It is important that countries limit the access to such movies, especially to young people in order to protect the domestic culture."*