NO PREP

The U.S. Economy in a Globalized World

Boom or Bust

Includes: Student reading, case study, differentiated questions, teacher key



Name: Period: Date:

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A New World Order

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A New World Order

When the Soviet Union collapsed in 1991, the Cold War that had organized the world for nearly half a century simply ended, and a different force began organizing it instead: globalization, the growing interconnection of the world's economies, technologies, and cultures. Trade barriers fell one after another. The North American Free Trade Agreement linked the United States, Canada, and Mexico in 1994; the World Trade Organization formed in 1995 to referee global commerce; and China, home to more than a billion workers and consumers, joined it in 2001. Two quieter revolutions made the paperwork matter: the shipping container, which made moving goods across oceans astonishingly cheap, and the internet, which made moving money and information across borders instantaneous. For the American economy, the promised benefits were real. Companies gained access to vast new markets for their goods and services. Competition from foreign producers pushed consumer prices down, so paychecks stretched further at the store. Investment flowed both directions, as U.S. firms built operations abroad and foreign money funded American businesses. By the late 1990s a car might be assembled in Ohio from parts made in a dozen countries, financed by a bank with offices on three continents. Supporters argued this web of exchange made everyone richer and made war between trading partners less likely. But globalization was not a simple gift. It rearranged who prospered and who struggled inside America, and it tied the nation's fortunes to events far beyond its borders — facts the country would confront painfully in the decades ahead.

The Peace Dividend and the Roaring Nineties

The Cold War's end raised an immediate question in Washington: what should America do with the money it no longer needed to spend confronting the Soviet military? Defense spending, which had powered whole regions of the economy for decades, began to fall. Economists called the freed-up resources the peace dividend. A 1992 Congressional Budget Office report captured both the hope and the worry, noting that reduced defense spending created an opportunity to invest in domestic priorities like education and infrastructure, but warning that careful planning was needed to soften the blow to defense-dependent communities. The warning was earned: when bases closed and contracts ended, towns built around them lost jobs that never returned. For the nation as a whole, though, the 1990s roared. Technology companies boomed, unemployment fell to thirty-year lows, and by the decade's end the federal government was running budget surpluses for the first time in a generation. Then came two shocks in rapid succession. In 2000, the dot-com bubble — years of wild speculation in internet companies — burst, erasing trillions in stock value. Eighteen months later, the September 11 attacks struck the economy's nerve center. The New York Stock Exchange closed for four trading days, its longest shutdown since 1933, and the Dow fell 684 points when trading resumed. Airlines, tourism, and insurance reeled. Congress rushed billions in emergency aid to the crippled airline industry, and layoffs spread through hotels and travel firms. Yet the economy's overall downturn proved brief, and the 2000s resumed their climb — powered, it turned out, by a housing boom with a rotten foundation.

Winners and Losers

Globalization's report card depends entirely on where you stand when you read it. Consumers were clear winners. Imported clothing, electronics, toys, and furniture cost far less than domestic versions once had, effectively giving every household a raise. Companies that exported American products, software, movies, and financial services thrived in the new markets, and entirely new industries grew around

managing global supply chains. But the losses were just as real, and they were concentrated. Manufacturing workers watched factories move overseas to countries where labor cost a fraction of American wages — a shift economists call offshoring. In the first decade of the 2000s, the United States lost millions of manufacturing jobs, and the damage piled up in particular places: the industrial Midwest earned the nickname Rust Belt as steel towns and mill towns hollowed out. A laid-off machinist could not simply become a software engineer, and the new jobs often appeared in different cities, at different wages, requiring different skills. Meanwhile income inequality widened, as globalization's gains flowed disproportionately to investors, executives, and highly educated workers. These concentrated losses fueled a political argument that has never ended: were trade agreements a rising tide lifting all boats, or a bargain that traded away factory towns for cheaper televisions? Economists still debate how much blame belongs to trade versus automation, but the lived experience of both stories — bargain prices and boarded-up main streets — shaped American politics for a generation. Trade's defenders and critics still argue past each other today, because both are describing something true.

The Bubble Bursts

The crisis that defined the globalized economy arrived in 2008, and it began at home — literally. During the early 2000s, housing prices climbed relentlessly, and the belief took hold that they could never fall. Lenders, hungry for profit, began issuing subprime mortgages: high-risk home loans made to borrowers with weak credit, often with low teaser payments that ballooned later. Wall Street then bundled thousands of these mortgages into complex financial instruments called derivatives, whose value derived from the underlying loans, and sold the bundles to investors worldwide — with rating agencies stamping many of them as ultra-safe. Every link in the chain assumed housing prices would keep rising. When prices instead stalled and fell, borrowers defaulted, the bundles turned toxic, and no one could tell which institutions were holding the losses. In September 2008, the

investment bank Lehman Brothers collapsed — the largest bankruptcy in American history — and global credit froze almost overnight. Banks stopped lending, businesses cut payrolls, and the stock market cratered. Millions of American families lost homes to foreclosure, and millions more watched retirement savings evaporate. Unemployment climbed to ten percent by late 2009, the worst since the early 1980s, and household wealth fell faster than at any point since the Depression itself. Because globalization had wired the world's banks together, the American housing bust became a planetary event, toppling banks in Europe and slowing economies on every continent. The downturn earned a grim name that measured its scale: the Great Recession, the deepest economic slump since the Great Depression of the 1930s.

Bailouts, Stimulus, and the Long Argument

Facing what many economists feared could become a second Great Depression, the federal government intervened in the economy on a scale unseen in generations. In October 2008, Congress approved a 700-billion-dollar rescue program that injected money directly into struggling banks — the bailouts — on the theory that letting the financial system collapse would destroy everyone's jobs and savings, not just Wall Street's. Washington also rescued the auto industry, and in 2009 passed a stimulus package of roughly 787 billion dollars in spending and tax cuts designed to restart economic activity and create jobs. The Federal Reserve slashed interest rates to nearly zero and bought vast quantities of bonds to pump money into the frozen economy. In 2010, Congress passed sweeping regulatory reforms intended to prevent a repeat, tightening oversight of banks and the exotic instruments that had spread the damage. Every one of these moves ignited debate that still echoes. Supporters argue the interventions worked: the system held, and the economy began a long recovery. Critics counter that bailouts rewarded the very institutions whose recklessness caused the crisis — a problem economists call moral hazard — while ordinary homeowners got far less help, and the national debt swelled. The deeper argument is about globalization itself. An interconnected economy delivers

cheaper goods, wider markets, and faster growth, but it also transmits shocks at internet speed and leaves particular workers and towns holding the bill. Boom or bust, the central question of the era remains open: how does a nation capture globalization's gains while protecting the people it puts at risk?

Key Information: The U.S. Economy in a Globalized World

Detail	Information
Globalization	Growing interconnection of world economies, technology, culture
Peace dividend	Resources freed when Cold War defense spending fell
9/11 market shock	NYSE closed four trading days — longest since 1933
Subprime mortgage	High-risk home loan made to a borrower with weak credit
Lehman Brothers	Collapsed September 2008 — largest U.S. bankruptcy ever
Peak unemployment	Ten percent in late 2009, worst since the early 1980s
Bank rescue program	$700 billion approved by Congress in October 2008
Great Recession	Deepest downturn since the Great Depression

Case Study: The Machinist and the Checkout Price

Marcus Webb, 52, ran precision lathes at an Ohio parts plant for twenty-nine years — same gate, same badge, same union hall as his father. In 2007 the company announced production was moving to a lower-cost plant overseas, and Marcus's shift ended for good. "The severance paper said 'global restructuring,'" he recalled. "My dad's layoffs at least had names you could argue with." At 52, retraining felt like starting over: he took a certificate course in industrial maintenance and eventually found work servicing warehouse conveyor systems — steady, but at three-quarters of his old wage. His daughter Tasha sees the other side of the ledger. She furnished her first apartment for a fraction of what it would have cost in her father's day, and her logistics job at a regional distribution hub exists precisely because imported goods flood through it. At Sunday dinners they argue, gently, about whether the country traded away his job to pay for her bargains — and neither one thinks the answer is simple.

1. How do Marcus and Tasha each represent one side of globalization's 'report card' from the reading?

_____

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2. Using the reading, explain why Marcus could not easily move into one of the economy's new jobs.

_____

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Multiple Choice

1. Which event opened the era of post-Cold War globalization?
    a) The 2008 financial market crash and housing crisis
    b) The dot-com technology bubble and internet crash
    c) The Apollo moon landing program
    d) The collapse of the Soviet Union

2. What was a subprime mortgage?

a) A loan available only to wealthy investors with good credit

b) A high-risk home loan made to a borrower with weak credit

c) A government grant program for first-time homebuyers

d) A mortgage with no interest charges for the first years

3. What was the 'peace dividend' of the 1990s?

a) Resources freed as Cold War defense spending declined

b) A cash payment mailed to every American household

c) Profits earned by defense contractors from selling weapons

d) A tax placed on foreign imports to protect manufacturing

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ Globalization	A) Moving production to countries where labor costs less
2. ___ Subprime mortgage	B) Severe global downturn triggered by the 2008 financial crisis
3. ___ Derivative	C) High-risk home loan issued to a borrower with poor credit
4. ___ Offshoring	D) Complex financial instrument whose value comes from underlying assets
5. ___ Great Recession	E) Growing interconnection of the world's economies and cultures

Fill-in-the-Blank

1. Risky loans made to borrowers with weak credit were called _____ mortgages.

2. The severe downturn that began in 2008 is known as the Great _____.

3. The economic linking of nations through trade is called _____.

Short Answer

Answer each question in 2-4 complete sentences.

1. How did globalization create both winners and losers inside the American economy?

_____

_____

_____

2. Explain the chain of events that turned subprime mortgages into a global financial crisis.

_____

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3. Should the government have bailed out the banks in 2008? Defend your position with the reading.

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