

JIM C – QUIZ OF THE WEEK

MONDAY - 07/14/08

Fannie Mae and Freddie Mac stocks have plunged in recent days; as fear intensifies, many are asking about a government bailout.

HOW DID TERM “*GOVERNMENT BAILOUT*” ORIGINATE?

Origin: The root of "bail" is the Latin "*bajulare*," meaning "to carry" or "to bear a burden." The use of "to bail" meaning "to vouch for" or "to guarantee" was first used in the 16th century.

Definition: A situation in which the government offers financial aid or assistance to a failing business entity or industry in order to prevent the consequences that would arise from its downfall.

Examples:

- 1971 - Rolls Royce – Company was nationalized by Britain**
- 1979 - Chrysler: \$1.2 billion in federal loan guarantees**
- 1989 - Savings & Loan Crisis: A \$125 billion cost to the U. S.**
- 2001: U.S. Airlines: A \$15 billion cost to the U. S.**
- 2008 - Northern Rock: Bank was nationalized by Britain**
- 2008 - Bear Stearns: Federal Reserve assumed the risk of the less liquid assets and issued a non-recourse loan to JP Morgan Chase**

C W: Government Bailout = Action for the greater good of society

M of Z: Some say that a bailout actually condones mismanagement