University of Oran 2 Mohamed Ben Ahmed
Faculty of Economics, Management, and Commercial Sciences

Correction

Student's Name : ....

Speciality : ....

Timing : 1h30mn

Second English Exam M1

Subject A

In 2007, the US economy entered a mortgage crisis that caused panic and financial turmoil around the world. The financial markets became especially volatile, and the effects lasted for several years or longer. The financial crisis of 2008 represented a dramatic shock to the stability of the US economy and extraordinary actions by the government and central bank to prevent even worse catastophe.

The **subprime mortgage crisis** was a result of too much borrowing and flawed financial modeling, largely based on the assumption that home prices only go up. Greed and fraud also played important parts. In the early 2000s, the dream of owning a home came into reach for a record number of people. Mortgage interest rates were low, allowing consumers to get relatively large loans with a lower monthly payment. In addition, home prices increased dramatically, so buying a home seemed like a sure bet. Lenders believed that homes make good collateral so they were willing to lend against real estate and earn revenue while things were good.

Banks offered easy access to money before the mortgage crisis emerged. Borrowers were able to borrow more than ever before ; in addition, they had access to loans that promised short-term benefits with long-term risks. People, businesses, and governments had money to invest, and they developed an appetite for mortgage-linked investments as a way to earn more in a low interest rate environment.

Once people started **defaulting** on loans in record numbers, the mortgage crisis really heated up. Banks and investors began losing money. Financial institutions decided to reduce their exposure to risk very quickly, and banks hesitated to lend to each other because they didn't know if they would ever get paid back.

Bank weakness and fear caused bank failures, and panic increased. Other factors contributed to the severity of the mortgage crisis. The US economy softened, and higher commodity prices hurt consumers and businesses. Today, lenders are required to **verify** that borrowers have the ability to repay a loan, by showing proof of their income and assets. Moreover, banks impose a system of checks and balances to avoid the excesses they indulged in at the time. Regulation has come back and banks are much more cautious and ask for more guarantees before lending.

Exercise 1 : Answer these questions (6pts)

1- What caused the subprime mortgage crisis in 2007 ?
The subprime mortgage crisis was caused by too much borrowing and flawed financial modeling.

2- What were the most serious consequences of this crisis ?
Banks and investors began losing money causing bank failures. The US economy softened and higher commodity prices hurt consumers and businesses.

3- What are the measures taken today to avoid an eventual mortgage crisis ?
Lenders are required to verify that borrowers have the ability to repay a loan. Moreover, banks impose a system of checks and balances to avoid the excesses they indulged in at the time.

Exercise 2 : Explain or give synonyms to these words (3pts)

1- Subprime mortgage crisis : Banks gave out too many subprime mortgages that had a high risk of not being paid back.
2- Defaulting : stop repaying their loans
3- Verify : check control

Exercise 3 : Are these statements True or False ? Correct the False ones : (4pts)

1- The subprime mortgage crisis was a result of too much borrowing. True
2- In the early 2000's, motgage interest rates were high. FALSE → Low
3- The effects of the financial crisis lasted several years. TRUE
4- Banks did not offer easy access to money before the mortgage crisis. FALSE → offered easy access.

Exercise 4 : What is the role of central banks ? (2pts)

They issue coins and banknotes, manage a country's gold and foreign currency reserves, fix the minimum interest rate, control the money supply, and act as the lender of last resort!

Exercise 5 : Complete this paragraph with these words : (5pts)

Mortgages- lenders- subprime- house- defaulted

When house prices fell in 2007, hunderds of thousands of ...subprime...... borrowers ...defaulted.. ; they stopped paying their ..mortgages.., because their debt was greater than the value of their ....house....... They lost their homes as ....lenders....repossessed them.

Best of Luck...

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Subject B

In 2007, the US economy entered a mortgage crisis that caused panic and financial turmoil around the world. The financial markets became especially volatile, and the effects lasted for several years or longer. The financial crisis of 2008 represented a dramatic shock to the stability of the US economy and extraordinary actions by the government and central bank to prevent even worse catastophe.

The subprime mortgage crisis was a result of too much borrowing and flawed financial modeling, largely based on the assumption that home prices only go up. Greed and fraud also played important parts. In the early 2000s, the dream of owning a home came into reach for a record number of people. Mortgage interest rates were low, allowing consumers to get relatively large loans with a lower monthly payment. In addition, home prices increased dramatically, so buying a home seemed like a sure bet. Lenders believed that homes make good **collateral** so they were willing to lend against real estate and earn revenue while things were good.

Banks offered easy access to money before the mortgage crisis emerged. Borrowers were able to borrow more than ever before ; in addition, they had access to loans that promised short-term benefits with long-term risks. People, businesses, and governments had money to invest, and they developed an appetite for mortgage-linked investments as a way to earn more in a low interest rate environment.

Once people started defaulting on loans in record numbers, the mortgage crisis really **heated up**. Banks and investors began losing money. Financial institutions decided to reduce their exposure to risk very quickly, and banks hesitated to lend to each other because they didn't know if they would ever get paid back.

Bank weakness and fear caused bank failures, and panic increased. Other factors contributed to the **severity** of the mortgage crisis. The US economy softened, and higher commodity prices hurt consumers and businesses. Today, lenders are required to verify that borrowers have the ability to repay a loan, by showing proof of their income and assets. Moreover, banks impose a system of checks and balances to avoid the excesses they indulged in at the time. Regulation has come back and banks are much more cautious and ask for more guarantees before lending.

Exercise 1 : Answer the following questions : (6pts)

1- How was the situation in the early 2000's ?
In the early 2000's the dream of owning a home came into reach for a record number of people. Mortgage interest rates were low allowing customers to get large loans with a lower monthly payment.

2- According to the writer, who was responsible for the financial crisis ?
According to the writer, both the borrowers and financial institutions were responsible for worsening the financial crisis

3- What lessons have the banks learnt from the mortgage crisis ?
Banks are much more cautious and ask for more guarantees before lending. Today, lenders are required to verify that borrowers have the ability to repay a loan, by showing proof of their income and assets.

Exercise 2 : Explain or give synonyms to these words : (3pts)

1- Collateral : guarantee
2- heated up : increased
3- Severity : difficulty ... harshness

Exercise 3 : Are theas statements True or False ? Correct the False ones (4pts)

1- The financial crisis was a dramatic shock to the US economy. True
2- Once people started defaulting, banks and investors began losing money. True
3- The mortgage crisis began to intensify in 2007, when borrowers were able to repay their loans. FALSE : could not repay
4- Today, banks never ask for more guarantee before lending. FALSE

Exercise 4 : What is the role of Building Societies (UK) ? (2pts)

Building Societies are organizations in Britain that receive deposit and lend money as mortgages to home buyers.

Exercise 5 : Complete this paragraph with these words : (5pts)

mortgage- credit crunch- default- subprime- securities

The ...Credit Crunch... of 2007 was part of a wider banking crisis. US banks had lent too much money to ...mortgage... borrowers who could not repay. These were called ...subprime... mortgages. The banks had repackaged and sold on these mortgages in the form of new ...securities... However, the buyers of these securities did not know that the mortgages were high-risk. When house buyers started to ...default... on their loans, the lenders were in trouble.

Best of Luck...