

Use of articles

adapted by D.Potter - 20171204

practice based on an internet press release

Complete the text with either a zero article (-), a definite or an indefinite article

1 Leverage and [] financial crisis
2
3 Fullspate
4 <http://fullspate.digitalcounterrevolution.co.uk/english-articles-advanced/leverage.html>
5
6 In 2008 [] world financial system came close to [] complete meltdown. No one
7 wants [] repeat of that terrible crash, but how can [] repeat be avoided? In []
8 first instance we need to understand what brought us to [] brink - what we
9 were doing wrong during [] good times that was unwittingly leading us to []
10 cliff edge.
11
12 Just what led to [] meltdown?
13
14 Certainly there wasn't [] single factor that was to blame. From [] mid 1990s
15 financial institutions were putting more and more money into new kinds of very
16 risky investments. Some of these investments "like credit default swaps"
17 are very difficult to understand (the New York Times called them "arcane" in
18 one article) but [] particular investments are [] less important factor than
19 [] technique called leverage that was (and is) used to make those investments.
20 Arguably, understanding what leverage is, is [] key to understanding []
21 meltdown.
22
23 So what is leverage? In essence, it just refers to [] practice of borrowing
24 money to make [] investment.
25
26 To see how it works and to see both how attractive it can seem and how
27 extremely risky it is, lets compare leverage with [] old-fashioned investment.
28 Property Speculation As It Used To Be
29
30 Say you have \$20,000 to invest in property. You buy land worth \$20,000. Over []
31 period of time its market value increases by 10%. You make \$2,000. Not bad. And
32 in [] old days you might have been happy with that. Investing With Leverage
33
34 \$2,000 is nice, but more would be better, wouldn't it? So why not leverage?
35
36 If you have \$20,000 (and if [] economy is ticking over quite nicely) you
37 should be able to persuade [] financial institution to lend you [] lot more.
38 Let's say you are loaned 19 times your original amount, making [] total sum
39 \$400,000. Wow! so you invest \$400,000 in property. [] value increases by 10%.
40 You sell [] property and count your profits and find that you have made
41 \$40,000. Instead of [] 10% profit you would have made with [] old-fashioned
42 technique, you have made 200%! Of course you have to pay interest on [] money
43 you borrowed, and that might cut your profits in half, but 100% profit
44 (\$20,000) is still way, way better than 10% (\$2,000).
45
46 When times are good there is no doubting [] attractions of leverage, but when
47 [] bubble bursts things can get very, very nasty.
48
49 In [] old days, if you bought property worth \$20,000 with your own money and
50 land values dropped by 10%, you could hold onto [] property, shed [] few tears

51 about losing \$2,000 and wait for [] good times to come back again.

52

53 What happens to [] leveraged investment? Well, after [] 10% drop in land
54 values your \$400,000 investment is now worth \$360,000. [] market looks bad and
55 [] people who loaned you [] money want it back. They loaned you \$380,000 (19
56 times 20,000). You can get \$360,000 by selling [] property, but you still owe
57 another \$20,000. Shit! You started with \$20,000 not so long ago, and now you
58 owe \$20,000. You haven't lost 10%, you've lost 200%!! Actually, it's even worse
59 than that because you also owe interest on [] loan, which could be another
60 \$20,000, so you lose all your money and owe \$40,000 (meaning you made [] loss of
61 300%). You start tearing your hair out. And it's not only you who is tearing
62 out hair. [] financial institution is, too, because it isn't [] old fashioned
63 bank. It is also leveraged up to [] hilt. It has made lots and lots of other
64 loans like yours, all leveraged. In this way, [] relatively small downturn in
65 [] market (and for [] guy who buys stuff with his own money, [] 10% downturn
66 is not such [] big deal) can send [] tidal wave through [] investment and
67 finance business, leaving lots of companies bankrupt.

68

69 In [] example here, [] leverage ratio is 19 to one, which might seem like []
70 senseless amount of borrowing for normal people. However, before [] bubble
71 burst [] ratios were even higher. [] mortgage giants in [] U.S. Fannie May
72 and Freddie Mac, which were closely linked to [] government and were
73 supposedly run to stricter standards than normal, were leveraged close to
74 100:1. If you surf [] little on [] internet for investment agents, you'll find
75 some that say it's okay to be leveraged 200 to one (i.e. you have \$20,000 and
76 you borrow \$4,000,000 to put into risky investments!!).

77

78 So what is [] lesson to be learnt from all this? As John Stepek put it in
79 Money Week recently: " [] only way to stop future crises is to prevent []
80 level of leverage in [] system from reaching [] point where it becomes
81 dangerous." Leverage ratios above [] sensible limit need to be banned. []
82 problem is that it is easy to find support for [] policy like this during []
83 crisis, but while [] economy is on [] up so many powerful voices will insist
84 that such regulations put [] unreasonable brake on economic activity.

-- original text --

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