

1 **In debt we trust?**

2 (original at

3 http://www.economist.com/node/16397110?story_id=16397110

4 If a husband borrows money from his wife, the family is no worse off. By
5 extension, since Earth is not borrowing money from Mars, does debt
6 explosion really matter, or is it just an accounting device?

7 During the credit boom of the early 1990s and 2000s the conventional
8 view was that it did not matter: asset prices were rising faster than debt
9 and the use of derivatives was spreading risk across the system.

10 The problem with debt, though, is the need to repay it. Not for nothing
11 does the word credit have its roots in the Latin word *credere*, to believe. If
12 creditors lose faith in their borrowers, they will demand the repayment of
13 existing debt or refuse to renew old loans.

14 If the debt is secured against assets, then the borrower may be forced to
15 sell. A lot of forced sales will cause asset prices to fall and make creditors
16 even less willing to extend loans. If the asset price falls below the value of
17 the loan, then both creditors and borrowers will lose money.

18 This is particularly troublesome if the economy slips into deflation, as
19 happened globally in the 1930s and in Japan in the 1990s. Debt levels are
20 fixed in nominal terms whereas asset prices can go up or down. So falling
21 prices create a spiral in which assets are sold off to repay debts, triggering
22 further price falls and further sales. This is called the debt deflation trap.

Questions

- 1) What does the distinction between 'husband and wife' and 'Earth and Mars' consist of in the analogy used in paragraph 1?
- 2) Why was rising debt not regarded as a problem throughout the 1990s and 2000s?
- 3) Explain the relationship between debt and faith described by the article in your own words!
- 4) Why might a debtor be forced to sell his assets and what are assets anyway?
- 5) What can make the assets lose value?
- 6) Why is debt a much greater problem in a deflation than an inflation?
- 7) What is a debt deflation trap?
- 8) What is your attitude to debt? Have you ever taken on substantial debt? What is your experience? Do you think that in the world of today, one has to borrow money in order to survive?

Vocabulary

by extension (lines 4 to 5) – used before mentioning something that is naturally connected to or is a natural result of something else

lose faith in (line 12) – to stop believing in something or stop believing in somebody

secure against (line 14) – to legally promise that if you cannot pay back money you have borrowed, you will give the lender property

trigger (line 21) – make something happen, cause something

You can find additional explanation and more examples to help you understand and use English words and phrases at <http://dictionary.reference.com>, <http://dictionary.cambridge.org/>, or <http://www.merriam-webster.com/>

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