Global Financial Crisis – A Lesson Study

V.Anandhakumar
Asst Professor, Department of Commerce with Computer Application, Erode Arts and Science College (Autonomous)-Erode – 9, India

Abstract

Savings and investments in the American money market by emerging countries, primarily China, financed the excessive consumption of the United States in the early 2000s, which indirectly led to a global financial crisis. The crisis started from the real estate mortgage market. Such balance disrupting processes began on the American financial market which contradicted all previously known equilibrium theories of every school of economics. Economics has yet to come up with models or empirical theories for this new disequilibrium. This is why the outbreak of the crisis could not be prevented or at least predicted. The question is, to what extent can existing market theories, calculation methods and the latest financial products be held responsible for the new situation. This paper studies the influence of the efficient market and modern portfolio theory, as well as Li's copula function on the American investment market. Naturally, the issues of moral risks and greed, credit ratings and shareholder control, limited liability and market regulations are aspects, which cannot be ignored. In summary, the author outlines the potential alternative measures that could be applied to prevent a new crisis, defines the new directions of economic research and draws the conclusion for the Hungarian economic policy

KEYWORDS: Global Financial Crises, Salvations' Guidelines and Union.

Introduction

A financial crisis typically involves problems in the banking and finance sector. Banks, financial institutions, the currency market, and the capital markets are part of the banking and finance sector.If a country's major bank collapses, this is a financial crisis, especially if other banks also start crashing. It is also a financial crisis if a significant number of borrowers default on their debts. If these problems continue, the problem will start influencing macroeconomic conditions. Macroeconomics refers to things that span the whole economy, such as GDP growth, unemployment, and inflation. A significant rise in interest rates is also a macroeconomic issue.A global financial crisis is a financial crisis that affects several countries simultaneously. During global financial crises, financial institutions lose faith. Subsequently, they stop lending to each other and traders stop purchasing financial instruments. Eventually, most lending stops and businesses suffer significantly. In most global financial crises, parties to financial contracts in many countries fear that their counterparties will not honor them. They also conclude that the financial assets they own will be worth less than they had previously thought. Eventually, banks stop lending and demand early settlement of loans and other financial instruments. Banks also start selling all the financial assets that they can. Eventually, most lending stops and businesses suffer significantly. In most global financial crises, parties to financial contracts in many countries fear that their counterparties will not honor them. They also conclude that the financial assets they own will be worth less than they had previously thought. During the crisis, GDP is typically declining, liquidity dries up, and property and stock market prices plummet. It is an economic downturn that gets worse and worse.

It will lead headaches to the financial advisors and country. From this point of view this study will focuses the impact of financial crisis and restoration from the financial crisis.

Global Financial Crisis Causes

When there is a global financial crisis, everybody suffers, including banks, companies, workers, consumers, and borrowers. According to financial advisor at least one the following phenomena are present during a global financial crisis,

1. Economy wide recession
2. Liquidity and credit crunch spread to all credit and financial markets
3. Global current account imbalances and global savings glut
4. Credit volumes change significantly.
5. Banking crisis led to highest debt crisis
6. Asset prices decline considerably.
7. Distorted incentives of credit rating agencies
8. Serious interruptions in financial intermediation.
9. Severe interruption in the supply of external financing to many players in the economy
10. Households, companies, financial intermediaries, and sovereigns experience large scale-balance sheet problems.
11. Housing and mortgage bust
12. Years of low interest rates
13. Indefinite supervision and regulation of the financial system – regulatory failure
14. Excessive risk taking and leverage of the banks – especially sub prime lending
15. Irrational exuberance and animal spirits leading to financial bubbles

World Faces Financial Crisis and Salvations' Guidelines Taken.
Japan:

Japan was hit hard by the global financial crisis even though its relatively resilient financial system initially limited the direct impact. The severe collapse of industrial production that followed was no doubt attributable to a confluence of factors, but the paper highlights the impact that came from the contractionary effect of global deleveraging on the real economy. In this environment, Japan was particularly vulnerable because of the structural changes that had taken place over the past decade in its trade and industrial structures. Vector autoregression analysis confirms that, as a result of these structural changes, Japanese output became much more responsive to output shocks in the advanced markets of the United States and Western Europe.

The structural changes had two components. First, over 90% of Japan's exports consisted of highly income-elastic industrial supplies, capital goods, and consumer durables. Though emerging Asia is Japan's largest export market, its imports from Japan largely consist of intermediate goods used in the production of final goods destined for the US and Western Europe. Second, Japan's trade dependence had increased since the early 2000s, as evidenced by a rising export to gross domestic product ratio and a declining share for the non-tradable sector. Though increasing trade openness is a natural part of economic globalization and regional

integration, the manner in which this process had played out made Japan particularly vulnerable to a negative demand shock coming from outside.

To make Japan more resilient to external shocks, policymakers could promote the export of finished goods to emerging Asia by establishing a region-wide free trade arrangement. To promote domestic demand, the social protection system needs to be strengthened so as to reduce households' uncertainty for the future; a more liberal immigration policy should help invigorate private investment in an aging society. To facilitate a better allocation of resources, further deregulatory measures in the more regulated non-tradable goods sector are called for; a substantial lifting of restrictions in agriculture, especially regarding the corporatization of production, would be especially helpful. With little available fiscal space, these measures will help create a climate in which private investment can flourish, driven by final domestic demand.

German :

The global financial and economic crisis has hit Germany especially hard, leading to the most severe economic decline in the history of the Federal Republic—one more drastic than its counterpart in any other large European country or the United States. The impact of the crisis on Germany's manufacturing sector has been especially dramatic as a result of the country's strong focus on exports (exhibit).

various argue that Germany must reduce its emphasis on them and concentrate more on domestic demand. But the country's answer to the crisis cannot be a departure from a successful export orientation and an above-average level of industrialization. Given these strengths, radically redefining the current economic model is not the solution. Instead, Germany will need to develop and refine its economic model further.

Europe's largest economy must pursue three strategies to prepare for increased economic volatility in the coming years:

1. Reinforcing growth. An economic structure characterized by a high-performing industrial core, with its strong export orientation, reflects Germany's strengths and therefore offers unrivalled prerequisites for future growth. A trade surplus drove almost 60 percent of GDP growth over the past decade.

2. Building resilience. Exports alone will not prove sufficient to induce the growth required, at least for the next two years. A larger and more dynamic service sector, particularly if it offered additional support to German manufacturers, shows greater promise than higher private consumption—as welcome as that would be—and could compensate for fluctuations in the industrial sector.

3. Driving renewal. Germany needs a high-quality talent base, a superior infrastructure, and the other drivers of lasting growth. Comprehensive educational reform is also required, as well as a willingness, by businesses and German society as a whole, to put renewal ahead of conserving the status quo at almost any price.

Soviet Union

In the 1970's and 1980's the Soviet Union seemed to be one of the most stable political units in the world. In international politics the Soviet Union was very strong and seemed only to be getting stronger. It was, for example, securing political client states in Africa. The Western powers believed this image was valid. But in the Soviet Union few things were really what they seemed to be.

There were many economic problems for the Soviet Stalinist system. One very general problem was the lack of incentives for productivity. As anonymous Soviet citizen said “They pretend to pay us and we pretend to work.” The Russian economist, Grigory Yavlinsky, who ultimately became an important advisor to Mikhail Gorbachev, became convinced to the need for reform when he investigated the low productivity in the Soviet mines. He found the miners were not working because they had no incentives to work. Said Yavlinsky “The Soviet system is not working because the workers are not working.” First there was a visible decline in the rate of growth, then its complete stagnation. There was a drawn-out, deepening and almost insurmountable crisis in agriculture. It was a frightening and truly terrifying sign of crisis

It seemed to us that all we had to do was to remove some prohibitions, some brakes. Free everything up and it would start to work. It would work. There is a good engine there. It has got a bit old and rusty. It needs oil. Then just press the starter and it will set off down the track. And we went along under this illusion for one and half to two years. But as soon as we began to make really radical reforms, in foreign policy say, we immediately came up against the resistance of the system, that is to say, the military-industrial complex, the central core of the system. It began to resist.

And that is when we began to understand that if we wanted radical reform we would inevitably come up against the resistance of the system. And that is what happened. And from that moment on people began to say that the system is unreformable and the Party is unreformable. Although there did remain some illusions, some hopes, that it could all be done without major conflicts. that was keeping this country together was the invented outside threat. So Gorbachev's foreign policy which confirmed to the people that there was no danger from the outside, actually played a bad or a good joke with his country because then it did not have any particular reason to keep the structure of this camp

China

The United States remains the largest economy in the world. However, the trend of China Rising is clear. The Asian financial crisis affected China at the margin, mainly through decreased foreign direct investment and a sharp drop in the growth of its exports. However, China had huge reserves, a currency that was not freely convertible, and capital inflows that consisted overwhelmingly of long-term investment. For these reasons it remained largely insulated from the regional crisis and its commitment not to devalue had been a major stabilizing factor for the region. However, China faced slowing growth and rising unemployment based on internal problems, including a financial system burdened by huge amounts of bad loans, and massive layoffs stemming from aggressive efforts

Until the 1980s the economy was directed and coordinated by means of economic plans that were formulated at all levels of administration. The reform program significantly reduced the role of central planning by encouraging off-plan

production by state-owned units and by promoting the growth of collective and individual enterprises that did not fall under the planning system. The government also endeavored to replace direct plan control with indirect guidance of the economy through economic levers, such as taxes and investment support. Despite these changes, overall direction of the economy was still carried out by the central plan, as was allocation of key goods, such as steel and energy.

Until the reform period of the late 1970s and 1980s, the prices of most commodities were set by government agencies and changed infrequently. Because prices did not change when production costs or demand for a commodity altered, they often failed to reflect the true values of goods, causing many kinds of goods to be misallocated and producing a price system that the Chinese government itself referred to as "irrational." The best way to generate the accurate prices required for economic efficiency is through the process of supply and demand, and government policy in the 1980s increasingly advocated the use of prices that were "mutually agreed upon by buyer and seller," that is, determined through the market. The prices of products in the farm produce free markets were determined by supply and demand, and in the summer of 1985 the state store prices of all food items except grain also were allowed to float in response to market conditions. Prices of most goods produced by private and collectively owned enterprises in both rural and urban areas generally were free to float, as were the prices of many items that state-owned enterprises produced outside the plan.

During the reform period, higher levels of inflation appeared when government controls were reduced. The first serious jump in the cost of living for urban residents occurred in 1980, when consumer prices rose by 7.5 percent. In 1985 the increase was 11.9 percent, and in 1986 it was 7.6 percent. There were several basic reasons for this burst of inflation after thirty years of steady prices. First, the years before the reform saw a generally high rate of investment and concentration on the manufacture of producer goods. The resultant shortage of consumer commodities caused a gradual accumulation of excess demand: personal savings were relatively large, and, in the late 1970s and early 1980s, there was a booming market for such expensive consumer durables as watches and television sets. Second, the real value of many items changed as some resources became more scarce and as technology altered both manufacturing processes and products. The real cost of producing agricultural products rose with the increased use of modern inputs. Manufactured consumer goods that were more technologically advanced and more expensive than those previously on the market - such as washing machines and color television sets - became available. During the early 1980s, both consumer incomes and the amount of money in circulation increased fairly rapidly and, at times, unexpectedly. Consumer incomes grew because of the reform program's emphasis on material incentives and because of the overall expansion in productivity and income-earning possibilities. The higher profits earned and retained by enterprises were passed on to workers, in many cases, in the form of wage hikes, bonuses, and higher subsidies. At the same time, the expanded and diversified role of the banking system caused the amounts of loans and deposits to increase at times beyond officially sanctioned levels, injecting unplanned new quantities of currency into the economy.

India

India, which had been riding an unprecedented boom before the crisis, was also hit badly by the 2008 contagion which originated in Wall Street and swept across the world. Gross domestic product (GDP) growth had been more than 8% in the five

preceding years before the crisis erupted. It fell sharply immediately after the crisis. In 2007-08, India's GDP was at 9.32% which fell to 6.72% in 2008-09. The Sensex plunged from 21,000 points to 8,500 in three months. A combination of monetary and fiscal stimulus – basically, cuts in taxes and interest rates, and more government spending - spurred a temporary recovery but widened the fiscal deficit, which was 2.8% in 2007-08 and went up to 6.5% in 2009-10. When these measures were withdrawn, growth fell. The Indian economy remains on a lower growth trajectory today than it was in the years preceding the crisis. An important impediment to the post-crisis recovery has been the fall in share of capital formation in the economy's GDP, which is an important multiplier to economic growth. Economists have attributed this to the twin balance-sheet problem, where companies have not been able to pay their earlier debts and banks have a shortage of fresh capital to lend. The crisis also led to a derailment of the fiscal consolidation process which was underway in the economy.

The 2008 economic crisis caused tens of millions of people to lose their homes, led to hundreds of millions losing their jobs and destroyed trillions of dollars in wealth. Ten years since the sub-prime crisis, India's fiscal deficit is still not back to the pre-crisis levels.

India needs urgent reforms to its financial system because banks have created a major crisis by lending unwisely to big borrowers who lack the ability or intention to repay their debts. The financial system in the economy is like the circulatory system in the human body. And banks form its beating heart. If banks falter, the flow of money stops and the economy suffers the equivalent of a heart attack. The Indian NPA crisis is a result of a deeply flawed banking system renowned less for its acumen, professionalism and prudence and more for its inefficiency, corruption and mismanagement. Most banks are operated by the government. These state-owned or public sector banks occupy the commanding heights of the economy. They disbursed 69% of the total loans in 2016-17. Politicians and bureaucrats form a vicious nexus that controls these banks. This means that appointments to top positions and sanctions for key loans are a result of patronage, not process. It leads to vicious crony capitalism, where those with connections to the politician-bureaucrat mafia "laugh their way to the bank."

demonetization and the introduction of the Goods and Services Tax (GST) has put businesses under great strain. In 2016, the Indian government withdrew currency notes of Rs500 and Rs1000 denomination. In India's traditional cash-based economy, this created havoc for traditional businesses. Similarly, the rollout of GST with terrible government circulars, asphyxiating red tape and aggressive implementation has also shaken up traditional businesses. Most of these have avoided the tax net so far and the GST has increased their cost base. These two disruptive measures have delayed economic recovery and elongated the business cycle. In turn, businesses find it harder to pay back loans to the banks, putting further strain on India's financial system.

Recovery Suggestions

The market-friendly, lightly regulated model of capitalism promoted by the United States is now at risk, and development thinking worldwide is at something of an impasse. Editors Nancy Birdsall and Francis Fukuyama bring together leading

scholars to explore the implications of the global financial crisis on existing and future development strategies.

Conclusion

Financial Sector are major role for countries health. For keeping health of the nations the govermernt would take immediate action to reform the economy level to reach health of country which are listed below as per simplifications of world financial crisis studies;

1.Market ,Price & Demand
2. Lending Money and Borrowers
3. Peoples fundamental requirement and employment
4. Home and griculture
5.Foreighn Policy and Investent
6.Exchange Monetary Policy : Import and Export

From the studies the above said suggestions would be considerable for restorations for country economy growth and that will lead growth in finance sector.

Reference

1. BACHELIER, L. (1900): „Theorie de la Speculation," Paris; Gauthier-Villars, Cf. English translation in P. Cootner (ed.): The Random Character of Stock Market Prices, Cambridge: MIT Press, 1964
2. BASU, S. (1977): Investment Performance of Common Stocks in Relation to Their Price-Earnings Ratios: A Test of the Efficient Market Hypothesis, Journal of Finance, Volume 32, pp. 663–682
3. BÁGER G. (2010): Financial Globalization. Four ELearning Lessons for the United Nations, UNITAR World-wide Teaching Program, Manuscript