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STUDY ON GLOBAL FINANCIAL CRISIS"

Ms. Rashmi Tripathi[1], Anant Mehta[2]

[1] Assistant Professor Amity University,Lucknow
[2] Student: BCom (H) Sem- 6 A7004621134

ABSTRACT :

The global financial crisis of 2007-08 stands as one of the most significant economic upheavals in modern history, leaving a profound impact on economies worldwide. This paper seeks to delve into the complexities surrounding the crisis, examining its root causes, the chain of events that unfolded, and its far-reaching consequences.

At its core, the crisis was fueled by a combination of factors, including lax regulatory oversight, excessive risk-taking by financial institutions, unsustainable lending practices, and the proliferation of complex financial instruments. The bursting of the U.S. housing bubble served as a catalyst, triggering a domino effect that reverberated throughout the global financial system.

The repercussions of the crisis were severe and widespread, leading to a wave of bank failures, a collapse in asset prices, a sharp rise in unemployment, and a contraction in economic activity. Governments and central banks responded with unprecedented interventions, including massive bailouts, liquidity injections, and monetary easing measures, to stabilize financial markets and stimulate growth.

However, the crisis also unearthed systemic flaws within the global financial architecture, prompting calls for regulatory reform and stricter oversight to prevent a recurrence. Lessons learned from the crisis underscore the importance of prudent risk management, transparency, and accountability in financial markets.

As we reflect on the events of the global financial crisis, it is imperative to draw upon these lessons to build a more resilient and sustainable financial system for the future, one that prioritizes stability, inclusivity, and long-term prosperity.

Introduction :

One of the most significant economic events of the modern age, the global financial crisis of 2007–2008 had profound influence on financial institutions ,economies, and societies all across the world, echoing across continents. The crisis began in the US housing market and was sparked by intricate financial instruments, a lack of regulatory oversight, and interconnected global markets. It quickly spread to other countries and caused widespread panic, which in turn sparked the worst recession since the Great Depression.
The genesis of the subprime mortgage crisis in the US may be attributed mostly to their widespread issuance. These mortgages, which were given to people with bad credit records, were combined into intricate financial instruments called collateralized debt obligations (CDOs) and mortgage-backed securities (MBS).These securities proliferated, masking the underlying hazards and making them easier to distribute throughout the world financial system.

Literature Review :

A broad spectrum of viewpoints and views are present in the literature on the global financial crisis of 2007–2008, which reflects the crisis' significant effects on financial markets, economies, and society throughout the world. The crisis's origins, modes of transmission, and long-term effects have all been studied by academics.
The growth of complex financial products like mortgage-backed securities and collateralized debt obligations has been highlighted in studies that look at how financial innovation and deregulation contributed to the crisis. To further understand the crisis's quick spreading, researchers have also looked into how the world's financial markets are interrelated and how shocks spread internationally.

Significance of the study :

1. **Understanding Causes**: Investigating the root causes of the crisis helps in comprehending the vulnerabilities and systemic weaknesses in financial systems. This understanding can inform policymakers and regulators in implementing measures to prevent similar crises in the future.

2. **Impact on Economy**: The crisis led to a severe economic downturn, with significant consequences such as recession, unemployment, and declining GDP in many countries. Analyzing its impact provides insights into the dynamics of economic downturns and their ramifications on different sectors and populations.

Objective of the study

- Unraveling of Financial Institutions
- Market Turmoil and Recession
- Bank Bailouts and Government Intervention
- Impact on Global Trade and Development

Analysis and Findings :

QUANTITATIVE ANALYSIS

1. **Macroeconomic Indicators Analysis:**
- Analyze GDP growth rates before, during, and after the crisis to understand the economic impact.
- Examine inflation rates and unemployment levels to gauge the extent of economic instability.
- Assess changes in consumer spending and investment patterns.
2. **Financial Market Data Analysis:**
- Analyze stock market indices such as the S&P 500, FTSE, and Nikkei to track market movements.
- Study bond market indicators including yields and spreads to assess investor sentiment and risk perception.
- Evaluate currency exchange rates and volatility to understand global capital flows.
3. **Banking Sector Analysis:**
- Analyze bank balance sheets and income statements to assess financial health and solvency.
- Examine indicators such as loan delinquency rates, capital adequacy ratios, and liquidity measures.
- Investigate interbank lending rates and credit default swap (CDS) spreads to gauge liquidity and counterparty risk.

QUALITATIVE ANALYSIS :

1. **Narrative Analysis:**
- Examine the narratives surrounding the crisis, including media coverage, political discourse, and public perceptions.
- Analyze how different stakeholders framed the crisis and attributed blame, such as policymakers, financial institutions, and the public.
2. **Case Studies:**
- Conduct case studies of key institutions or events during the crisis, such as the collapse of Lehman Brothers or the housing market crash.
- Explore the decision-making processes within these institutions and the factors that contributed to their actions or failures.
3. **Qualitative Interviews:**
- Conduct qualitative interviews with experts, policymakers, economists, and individuals affected by the crisis.
- Explore their experiences, perceptions, and interpretations of the events leading up to and following the crisis.

CONCLUSION:

Finally, the global financial crisis of 2007–2008 is considered a turning point in the history of the economy, influencing financial systems, economies, and societies all over the world for a very long time. The current financial system is interwoven, as evidenced by its roots in the US housing market and its subsequent spread throughout other international financial markets, which revealed systemic weaknesses. Recession, joblessness, and widespread financial hardship were the hallmarks of the severe economic collapse brought on by the crisis. Long-term economic scars from the crisis include slow growth, ongoing unemployment, and sovereign debt difficulties. However, governments and central banks engaged with extraordinary steps to stabilize financial markets and avert systemic collapse. Significant legislative changes that attempted to enhance risk management procedures and reinforce supervision of financial institutions were also spurred by the crisis. Even while the world economy finally emerged from the depths of the crisis, the aftermath serves as a sobering reminder of how crucial responsible risk management, strong regulation, and international collaboration are to preserving financial stability and fostering long-term economic progress.

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