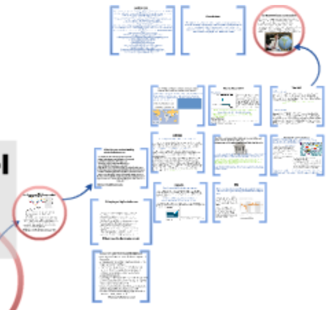
Quincy Apparel (B)



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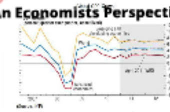
An Economists Perspective



Fall in GDP is worse in advanced economies because of reduced consumption and investment

Taylor (2007) argued that in the United States, the demand for housing is sensitive to money market interest rates and that accommodative policy on the part of the Federal Reserve from 2001 was likely therefore to have contributed to the build-up in housing demand and asset prices.

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What do you understand by Global Imbalances?

According to the European Central Bank global imbalances are defined as "external position of systemically important economies that reflect distortions or entail risks for the global economy"
Rodrigo de Ratoy Figaredo refers to global imbalan
"As the large current account deficit in the United S
and the matching surpluses in other countries suc
Japan, emerging Asia, some oil-exporting countries
well as other industrial countries, such as Canada"
surplus countries: china, GermanyE.g of deficit coun
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Role played by Imbalances

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Concerns regarding Global Imbalanc

- Gaps in growth performance between regi the world.
- A 'savings glut' in surplus countries create larger net capital outflows
- Insufficient supply of 'safe' financial assets home which encouraged emerging market investors to accumulate 'safe' assets from advanced economies.
- According to the IMF, there is a world of hi and emerging markets are expanding but c on external sources of growth.
- export led growth, and lack of social prote and the demand for the US Treasury bill.
- current concerns: unstability in regions su European union, US Fisical cliff.

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In the summer of 2007, the financial crisis started as the U.S sub-prime crisis. Discuss how the housing crisis spread to other advanced economies.

Pre-crisis conditions included

- House price bubbles (5 years prior to the crisis, house prices rose rapidly in advanced economies e.g in the UK and the EU with low interest rates)
- An increase in credit which led to excessive debt burdens on financial institution across countries
- The build up of marginal loans
- Loosely governed monetary policy and fiscal policy
- Systematic risk due to reduced cost of wholesale funding for intermediaries which led build up of leverage.

OVERALL CATALYSTS

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OVERALL CATALYSTS

The increase loans between financial institition means high leverage and higher leverage yields higher returns. There was also declines in lending standards which meant less supervisory and regulations. These catalysts facilitated a boom in house prices, which lead to financial crisis...

So the fall in housing prices in 2007 spread to a number of other advanced economies through...

- Direct exposures to sub-prime assets because they bought this loans (mortgage backed)

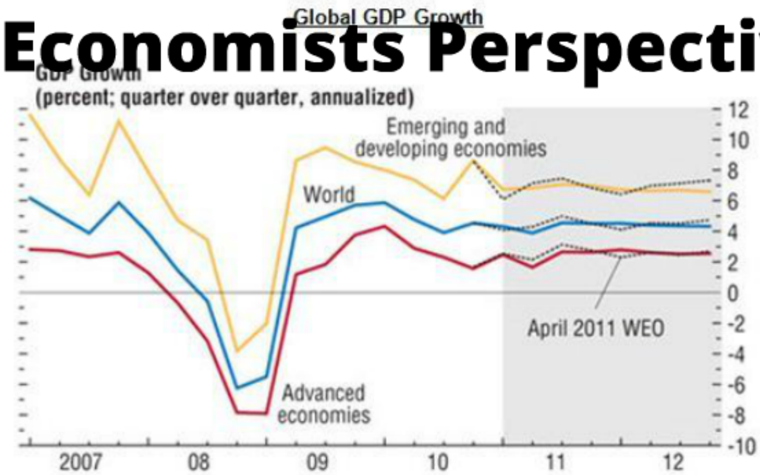
- Gradual loss of confidence in number of asset classes

- Drying up of wholesale financial markets which led to financial spill overs

- Large reliance on wholesale and short term funding in many advanced countries created systematic fragility (brunnermeier, 2009: Gorton 2008, 2009)

- The subsequent collapse in international trade because of the reduction in household wealth and consumption in the United States since it is the largest importing country.

An Economists Perspective



(Source: IMF)

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Role played by Imbalances

- According to Mervyn King Capital flow increased due the imbalances.There was an 'uphill' flow of capital from the dynamic, labour-abundant emerging economies to the mature advanced economies
- Increased capital flows raised global output to the extent that they seek out the most productive investment opportunities
- transferring savings from countries where the marginal product of capital is low to countries where the marginal product of capital is high.
- an insufficient supply of 'safe' financial assets at home which encouraged emerging market investors to accumulate 'safe' assets from advanced economies
- The scaling back of government-provided social safety nets and provision of health and education services, which encouraged households to build up saving buffers
- China have a fixed currency so this enables their export prices to be low.
- These growing flow imbalances have been accompanied by growing stock imbalances.
- The US debt quadrupled in size in the course of a decade, rising to USD 3.5 trillion in 2008 (25 per cent of GDP).
- Japan and Germany rose by around USD 1.7 trillion and USD 0.8 trillion respectively (around 35 per cent and 25 per cent of 2008 GDP) over the same period,
- Chinese net external assets reached USD 1.5 trillion, a third of GDP, in 2008.
- The current account United States and the main surplus country, China this was due to export led growth, and lack of social protection, and the demand for the US Treasury bill

Concerns regarding Global Imbalances

- Gaps in growth performance between regions of the world.
- A ‘savings glut’ in surplus countries created ever-larger net capital outflows
- Insufficient supply of ‘safe’ financial assets at home which encouraged emerging market investors to accumulate ‘safe’ assets from advanced economies.
- According to the IMF, there is a world of high debt and emerging markets are expanding but depend on external sources of growth.
- export led growth, and lack of social protection, and the demand for the US Treasury bill.
- current concerns: unstability in regions such as European union, US Fisical cliff.

By referring to relevant studies and examples, discuss how the impact of the crisis varied among countries.

The three that are going to be looked at are; Brazil, China and the Eurozone. All the countries impacted by the recession entered differently and at different points with different impacts. The study "Global linkages and global polices" looks at this.

1st quarter 2008	2nd quarter 2008	3rd quarter 2008	4th quarter 2008	1st quarter 2009
Ireland Estonia	UK France Germany Italy Netherland	Spain Austria Luxembourg Portugal Slovenia	Belgium Greece	Cyprus
			Brazil China Russia	

The following diagram shows this.