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**Wall Street, Main Street, and a
Credit Crunch:
Thoughts on the Current Financial
Crisis**

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Evolution of crisis
 Working of banks:
 Banks borrow short and lend long
 The credit market: financing
 No problem in normal times: no value problem, less
 capital, more reserves, problems exist since
 confidence disappears
 Creditors disappear when one or more banks
 experience solvency problem (e.g. bank failure)
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Conclusion & Options Menu
 Emerging Issues
 Money Market Institutions
 Banking with Money
 Currency Exchange
 Financing Credit in Financial Crisis
 and in Systemic Failure
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India's credit Regulator
& challenges
 State of Economy in India
 2007 Credit Regulator
 Government's Credit Regulator
 RBI and Challenge
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Impact of crisis on India
 Impact of Global Financial Crisis
 Report of Financial Regulator in India
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Final Document of Crisis
 Document of Global Financial Crisis
 Financial Regulator
 Report of Financial Regulator in India
 Credit Crisis
 Credit Regulator
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Backdrop of crisis?

Working of Banks;

Banks borrow short and lend long

This creates inherent fragility

No problem in normal times, i.e. when people have confidence. However, problem arises when confidence disappears.

Confidence disappears when one or more banks experience solvency problem (e.g. bad loans)

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Genesis & Development of Crisis:

*Efficient markets paradigm was very influential
It was captured by bankers to lobby for deregulation*

Consequently, Bankers achieved their objective

*Banks were progressively deregulated in
US and in Europe*

*Culmination was the repeal of the Glass-Steagall act
in 1999 (Clinton-Rubin)*

Varied Dimension of Crisis:

Global spread of the crisis

Financial Globalization

*Decline in the credibility of International Financial
Institutions*

*State Capitalism and
Protectionism*

Credit Crunch

*Crisis of Confidence and Credibility in the Financial
Market*

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*Impact of crisis on
India*

Offshoot of Globalized Economy

Aspects of Financial Turmoil in India

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*India's crisis Responses
& challenges*

State of Economy in Crisis Time

RBI's Crisis Response

Government's Crisis Response

Risks and Challenges

Conclusion & Options Ahead

Diversifying Exports

Boosting Domestic Consumption

Enhancing Public Spending

Generating Employment

Provisioning Credit to Productive Sectors

Need for Structural Reforms

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