

1. The U.S. financial crisis: a failure to govern

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The near-collapse of the financial system in the United States was the most substantial economic crisis in the U.S. since the Great Depression of the 1920s and 1930s. Since the crisis began in late 2007, more than 6 million Americans have lost their jobs, large and important financial institutions have failed, and trillions of dollars in savings and retirement accounts have been lost. It is generally accepted that problems in the United States housing market are at the root of the current United States and global financial crisis. However, even in mid-2009, twelve months after the financial crisis fully erupted in the United States, it is still too early to determine all of the precise causes and consequences of the crisis. Many different entities share the responsibility for creating or enabling the crisis: mortgage lenders, borrowers, regulators, investors, rating agencies, and probably many others. At its broadest level, this crisis was caused by a failure of governance: of political governance by regulators and legislators, of corporate governance by firms and executives, and of personal governance by individuals.

Just as it is too early to determine all of the precise causes of the U.S. and global financial crisis, it is too early to determine the best way to address the crisis. The U.S. government has implemented a plethora of facilities to try to fix the problems – from increased liquidity to mortgage modification programs. Financial institutions have also changed their ways: many are working hard to reduce their exposure to risky assets and extreme amounts of leverage. It seems apparent now that the U.S. will get through this crisis and the U.S. financial system will emerge in reasonably good shape. Whether or not this will be due to all of the efforts of the U.S. government is unclear. It is likely that much of what the government did was essential to saving the system during the peak of the crisis during September and October of 2008. It is also likely that legislators will react to this crisis by instituting legislation that will be misguided and unnecessary. It is important to thoroughly study the causes and consequences of the U.S. financial crisis and its implications for financial markets around the globe in order to better understand how the entities responsible for governing economies and firms must work to prevent a similar crisis from occurring in the future.

2. World financial crisis and Turkey

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The crisis known as the “World Financial Crisis” or “Mortgage Crisis” has been one of the largest and most influential crises experienced since the world economic depression in 1929 (Bebchuk, 2008, p. 1). This crisis which emerged in the USA and has been structured in a global dimension has deeply influenced both the developing countries and the developed ones. Underlying reasons for the crisis are complex in nature. Yet it is possible to simply list the settings and economic agents which opened the path to the crisis.

One notable phenomenon which resulted in the crisis is the mortgage market in the USA (Bianco, 2008, p. 3). When we look at the last 10 years of the USA economy, we can see that interest rates are very low, whereas real estate prices tend to increase in a continuous way (Krohn, Gruver, 2008, p. 3). It is observed that real estate prices have had a trend to increase rapidly since 1999 and they reached a peak in 2007. Continuous increase in real estate prices would enhance the banks to offer credits to their customers up to 110% of the real estate prices (Arıkan, 2008, p. 41).

3. World financial crisis: causes, effects and Australian response

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The world is experiencing a serious financial crisis, and Australia is not exception. This paper considers financial crisis origins, and comments on the relevance of the previous status quo, before dealing with the special case of Australia. This approach is necessary as crisis remedies may differ from economy to economy. Australia predominantly relies on primary industries as the principal source of economic wealth. Foreign ownership is considerably higher than elsewhere in the developed world: this makes Australia a special case. The paper concludes how Australia, and to a lesser extent the world, should choose to emerge from this financial crisis.

4. Risk-sensitive insurance management vs the financial crisis

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The financial market volatility characterizing the current scenario involves all sectors. The article concerns the pension annuity portfolios and analyzes the impact of the fluctuations in the financial markets on a significant portfolio financial situation indicator. The mathematical model providing the financial risk driver for such portfolios is implemented by means of simulation procedure and results are given regarding the sensibility of the financial risk to the change in the interest rate forecasting. The demographic scenario is outlined with a survival model capturing the longevity phenomenon contribution, particularly significant for the considered portfolios. The financial scenario is designed describing the evolution of the interest rate structure by stochastic model apt to catch the dynamic and elastic behavior in a framework of high volatility.

5. The financial crisis in Germany and Ukraine – reasons, development and countermeasures

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Both the matured West European and the emerging East European countries are currently facing an economic recession, preceded by a financial crisis triggered through different channels of contagion. The measures taken by the respective Central banks and governments to fight the crisis in Western and Eastern Europe differ substantially, however, depending on how developed the respective financial markets are and what exchange rate regime has been implemented. In line with EU recommendations, Germany – a member of the European Union and the Euro area – has chosen a comprehensive approach of state guarantees, public bank recapitalization and stimulus spending going hand in hand with measures by the European Central Bank to provide liquidity to the markets, reducing the ECB policy rate to historical lows.

In the Ukraine, however, Central bank measures have until recently rather aimed at defending the exchange rate of the local currency, public recapitalization of the banks has been slow and stimulus spending is restricted by conditions imposed by the IMF, having granted a Stand-by-facility to the Ukraine. Moreover, financial intermediation outside the banking sector is not very much developed. Thus, up to now, in the Ukraine these measures have rather had an ad-hoc-character predominantly trying to strengthen the Ukrainian Hryvnia and depositors' confidence in the banking system.

Since the second quarter 2009 the measures taken both in Germany and Ukraine to overcome the crisis seem to unfold first impacts.

6. World financial crisis and Ukraine

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The main causes of the world financial crisis, the peculiarities and trends of its world-wide distribution are widely discussed by experts and researchers. Moreover, the alternative forms of its consequences forecasting are considered, namely the evolution of the crisis according to the Great Depression of the 1930s, transforming the crisis into the enduring recession of the world economy, considering the crisis as the incentive to the global reconstruction of world financial system. Mortgage lending crisis, troubles in the activities of state-governed mortgage companies and investment banks, over-expansive monetary policy along with the dominant position of the USA, as well as its currency, on the international financial market, and the huge disbalance in the world economy etc. are supposed to be the main reasons of the world financial crisis.

The paper defines the reasons of the world financial crisis and its impact on the Ukrainian economy. It also examines the development of systemic crisis in the economy of Ukraine compared to other countries as well as with regard to export-import activities, external borrowing, currency, monetary and anti-inflationary policies, banking system functioning, political situation, etc. The suggestions are made concerning the duration and deepness of the financial crisis in Ukraine. Not only the negative effects of the world financial crisis on the economy of Ukraine are separated but also the new opportunities with regard especially to attracting foreign investments into the real economy are emphasized. The countermeasures used by the Government and their efficiency are analyzed. Moreover, a number of measures with regard to overcoming the world financial crisis' consequences and preventing a similar crisis from occurring in the future are proposed.

7. Development trends of the Ukrainian insurance market since its formation and during the financial crisis

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The paper analyzes, in retrospect, the Ukraine's insurance market development since the creation of Ukraine as an independent state. The main positive features of this market as well as unimproved opportunities and perspectives are emphasized. The indicators of insurance companies' activities for several past decades are cited with the special focus on the insurance market dynamics at the end of 2008 and at the beginning of the year 2009, i.e. during the financial crisis. The attributes are presented which differentiate the crisis situation on the Ukrainian insurance market from the behavior of the insurance markets in other countries. The work of the main regulatory authority of the insurance market – The State Commission on Regulation of Financial Services Markets – during the crisis is described.

8. A management perspective on the financial crisis

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This paper aims at providing a practical management perspective on the worldwide financial crisis. It will be proven that the so-called financial crisis is actually a consequence of wrong and irresponsible management, which could well have been predicted beforehand by systematic logical thinking and indeed has been predicted many years in advance by well-known management experts. It will be analyzed why their

arguments and warnings were ignored by most financial analysts, strategy consultants and bank top-management. Based on the analysis of the causes and their interdependencies, the consequences of this worldwide management failure will be predicted. Finally, possible solutions will be discussed and the most promising strategy will be derived accordingly. While the frequently offered solution alternatives all tend to involve spending borrowed public money, this article recommends a combination of considerably more careful and more effective public spending and an elimination of the underlying causes that either led directly to the financial crisis or at least contributed indirectly to it.

9. Memorandum on a new financial architecture and new regulations

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Stefan Mittnik (Prof., University of Munich, Germany)

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The financial crisis is global and is deeply rooted in a decade-long misuse of the financial market for rent-seeking. The financial industry has largely abandoned its role as a service industry, supposedly charging reasonable fees for the services of spreading risk and allocating capital and credit. Instead it provides a market for corporate control – mergers and acquisitions – and a casino for betting on or hedging practically any kind of risk – the derivatives market. Finance, broadly understood, has gone from 2% of the American economy to 20% of GDP since the early 1990s – yet there is little or no evidence that the value of its services to consumers and businesses are worth one-fifth of GDP. The growth of finance seems to be largely due, on the one hand, to deregulation, leading to liberalization of capital accounts all over the world, and to financial innovations on the other. But this innovation has led to the development of new financial instruments that are not well understood by their users or even their initiators. Financial derivatives, Mortgage Backed Securities (MBS), Collateralized Debt Securities (CDS), Collateralized Debt Obligations (CDOs), and so on, have clearly been misused. But besides that, some critics argue that they were misconceived, as well: the formulas for pricing and using them rested on unacceptable assumptions about the distribution of probabilities.

After capital market liberalizations, many countries experienced major episodes of financial instability, sometimes with devastating effects on economic activity, resulting in boom and bust cycles. These tended to bring about declining economic activity, large output losses and a terrible impact on the low income segments of the population and small businesses, indeed, all those unable to insure themselves against large financial and real shocks. The bursting of the real estate bubble in the U.S., Spain, and the U.K. and the world-wide fall-out for the U.S. and Eurozone credit and banking system has already had severe real effects, triggering what may be a long and deep recession in the U.S. and many other economies.

It was in order to prevent just such events that many countries instituted financial regulation after the Great Depression of the 1930s. The new regulatory institutions provided public screening and monitoring of the financial markets, and required firms and banks to adhere to strict standards of accounting and to publicly reveal information on assets, debt and earnings. The theory was that more and better information tamed exuberance and made prices conform to the risks banks were taking relative to their capitalization. Fast unravelling of these long-standing regulations – starting in the 1990s – allowed extreme leveraging on an unprecedented economic scale with untested instruments. With insufficient financial market regulation this leveraging carried great and poorly understood risk.

The recent collapse has its roots in the inadequate understanding of the new financial instruments, especially subprime mortgages and securitized mortgage instruments. The flaws in these instruments magnified into a credit crisis and a global financial market meltdown. The use of these terms is not hyperbolic. Since the end of the last year, central banks have tried to help the private banking sector with an extraordinary injection of

liquidity, even including the purchase of bad assets, for example from Bear Stearns. But this has not worked; the contagion of financial panic continues, sometimes subdued, but on occasion, virulently. The G-7, anticipating dire consequences to financial markets, met in April 2008 to consider recommendations of the Financial Stability Forum. But nothing happened, only a declaration, and this had no effect.

In early Fall, the EU Parliament required the EU commission to draft new directives for strengthening and harmonizing financial regulations in Europe. In the US, in September, Secretary Paulson brought to Congress a \$700 Billion rescue plan to bail out failing investment banks. Initially the idea was to buy up their non-performing assets. Congress rejected this, accelerating the stock market downturn. Then it accepted a modified version, including capital injections into weakened banks, as proposed in the UK. By this time the contagion had already spread, first to the UK and then to Europe. The guarantee of bank deposits by the Irish Government had put the UK and other EU Countries under pressure to do the same. The electronic bank runs became too dangerous. The 27 Heads of States of the EU met in Paris at the beginning of October to suggest a joint rescue plan for Europe and the global economy. The G-7 followed this up and put forward the suggestion of a new international financial architecture to be decided by a summit meeting in December in New York. Although some core European countries (UK, France, Germany) decided on national guarantees for bank lending operations and agreed to guarantee deposits, this was not enough to calm the stock market or loosen up the credit markets.

As these efforts took place credit around the developed world became frozen. To build up confidence the US treasury took additional action to purchase stocks of investment firms and banks threatened by bankruptcy. This helped a little to calm down the stock market and improve the climate for credit. But now a real recession is looming on the horizon, calling not only for a rescue plan but also for a new and stronger stimulus package.

The focus should shift now to the long run, to a new financial architecture. Here are some points of agreement among concerned academics and policymakers regarding financial market bubbles, new financial architecture and regulations.

10. Financial crisis as a global challenge: some thought of practical importance

Józef Antoni Haber (Ph.D., Honorary Professor of Jean Monnet Project of the European Union; Head of the International Relations Department – Poznan School of Banking, Faculty in Chorzów, Poland)

During last long months almost every important personality presented his/her opinions on what we call now “global financial crisis”. A lot of differences in the assessments are very natural and there are some important factors having impact on the approach for analysis. First of all, it depends on the level of decision making centers and people involved. I mean the responsibility the person has had within financial sector. This level implicated different approaches and attitudes to the matter. As a result, different points of view are presented on many occasions.

11. World financial crisis: causes, consequences, ways of overcoming

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The financial crisis of this first decade of the 3rd millennium has features that make it both severe and somewhat intractable. It might not be an exaggeration to call it a worldwide economic pandemic. It propagated quickly due to modern communications and worldwide financial markets integration. Governments intervened relatively early, but without clear central coordination or a unified plan. This created uncertainties and was part of the cause for a slowing or even freezing of some credit and derivative markets. It seems accurate to say that the financial sector is “front and center” of the drama; the real sector, manufacturing and trade, plays an offstage role. The mindset of some key policy makers could be seen as viewing the financial sector not as providing lubrication to the mechanism of production and trade, but as the central theme itself.

It is a challenge to discuss the current pandemic without recognizing the political wrapper surrounding many aspects of it, and the threads running through it. We shall try to do so as necessary without slipping into an advocacy role. But we feel it would obscure much of the problem and its prospective solutions to pretend that there are not powerful political forces with vested interests at work. The economic and behavioral factors clearly are affected by political influences, and it would make for an incomplete job to ignore them entirely.

12. Collective monograph: "World financial crisis: causes, consequences, ways of overcoming".

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While the storm occurred during the summer of 2007, the anticipation of an imminent bankruptcy issue subprime loans was pregnant but most of the operators did not want to forecast the occurrence of a disaster. As far as we know the financial and economic systems found themselves immersed in September 2008 in the most severe crisis since the 1930s.

Formed on a vulnerable economic structure and spread due to a severe failure in terms of financial ethics, this crisis gradually affected the entire global financial system and destabilized the economic fundamentals. The theory of "decoupling" was invalidated. The transmission of shocks has been extended to the entire planet. Mistrust won all operators. The banks did not ensure any more their interbank loans. The paralysis of the markets was combined with bewilderment and fear.

Hence, there is the need to capture the dynamics of this crisis. It is also time to reposition our wealth systems but also wasteful economic, financial and environmental ones.

13. Value, kinetic & safety fund for corporate: lessons learnt from economic crisis & all time answer to the bailout

Vrajlal K. Sapovadia (Prof., Indian Institute of Management, India)

The current economic crisis that surfaced in July 2008 has taken a big toll and invariably no one is spared whether in business or not. Entrepreneurs, legislators, executives, regulators & experts are concerned with finding out the reasons of such catastrophic economic failure. Liquidity crunch, overestimation, overexpansion, overvaluation, overexpenditure, sentiments and what not! There is a consensus that it is man-made!! A number of commentators have suggested that if the liquidity crisis continues, there could be an extended recession or worse. The continuing development of the crisis prompted fears of a global economic collapse. The financial crisis is likely to yield the biggest banking shakeout since the savings-and-loan meltdown. On October 6 investment bank UBS stated that 2008 would see a clear global recession, with recovery unlikely for at least two years.

14. The impact of financial crisis on the Tunisian economy

Sonia Seghir (Profesor of Economics, High School of Economic and Commercial Sciences, Tunisia)

Selima Ben Ammar (Tunisia)

The beginning of the 21th century was marked by one of the gravest financial crises of these last decades. If the economists agree to detect the reasons of its release and its propagation, the forecasts relative to the end

of this crisis remain difficult to make. We suggest, throughout this paper, presenting factors at the origin of the crisis by beginning with an analysis of the American banking sector from the 80s. We shall be interested afterward in the propagation of this crisis and on its impact on the Tunisian economy.

15. The world crisis and its consequences on the Italian financial and economic system

Daniele Toninelli (Assistant Professor of Statistics and Economics, University of Bergamo, Italy)

The present world financial crisis started in 2007. It is considered to be the crisis with the greatest impact on the world economy since the Great Depression that followed 1929. As a consequence of this crisis, the global financial system is altering. As a matter of fact, world growth measured in terms of purchasing power is projected to fall from 3.5% in 2008 to 0.5% in 2009. However, world growth measured in terms of market exchange rates is projected to turn negative, which is the lowest rate of growth since World War II. Moreover, according to the International Monetary Fund (IMF), only in 2010 is world economic growth expected to return gradually to 3.0%. In addition, for the first time since the 1982 recession, world trade volumes are expected to contract in 2009.