Politics impact on financial market and economy economics essay

The stock market affects the economy on different sides: first the wealth effect which is the effect on people financial outlook, this means that people lose their money on shares. The second impact is the effect on pensions which means the investment trust that can be the most important thing for the long term development. The third impact is represented by the consumer confidence for the stock market. The fourth impact is the investment itself which is represented by the increased issuing for shares. The last impact is the bond market which develops and improves the investments (Pettinger, 2011).

The economics of a country is related to the stock exchange situation. Stock exchange has many roles in the economy: raising capital for business through selling shares, mobilizing savings for investments helps companies' management in financing their organizations, facilitating company growth through merger agreement in stock market, profit sharing through dividends and stock price that generate revenue if it increases and corporate governance by offering public stock exchange (kelly, 2010).

Stock exchange also involve in creating investment opportunities for small investments since investing in shares is open for both large and small stock investors because a person buys the number of share he can afford. It is a barometer of economy since the share prices rise and fall depending on market forces. If the economy shows sign of stability and growth, the share prices tend to rise or remain stable, however if it shows depression then the stock market crash (Mandelbrot & Hudson, 2006).

The types of stocks are: Common stock, Concentrated stock, Golden share, Growth stock, Issued shares, Preferred stock, Restricted stock, Shares authorized, Shares outstanding, Tracking stock, and Treasury stock (Little, 2012).

In economics, a financial market is a mechanism that allows people to buy and sell financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect the efficient market hypothesis (Mandelbrot & Hudson, 2006).

Finance markets facilitate the raise of capital, the transfer of risk, and the international trade. The financial market matches between the borrower and the lender who buys or sold securities. Borrowers of the financial market can be individual persons, private companies, public corporations, government, and municipalities; whereas lenders in the financial market are the investors(Soros, 2009).

The Financial markets could mean:

1. Organizations that facilitate the trade in financial products. For example: stock exchanges facilitate the trade in stocks, bonds, and warrants.

2. Relating buyers and sellers to trade financial products.

Financial market can be domestic or international; trading financial products attract the interest of finance expert while the matches between seller and buyer attract the interest of economics (Dorfman, 1997).

The finance markets have changes due to globalization and new economic climate, the demand have increased from investors, regulators, and customers. In Marc Faber's book " Gloom Boom & Doom Report", there is identification for three structural changes in modern finance (Soros, 2009).

These changes are called: " the three Ations"

The first Ation is securitization where a liability or a mortgage is turned into an asset. The increase in securitization lead to a big problem since it decreases the liquidity.

The second Ation is the digitalization of financial trading where technology network have linked globally the financial markets.

The third Ation is the quantification where strong tendency in financial markets can be turned into organized spreadsheets with clear buy and sell signals.

Finance market is always exposed to risks due to the change in political, social, or technology situation (Amadeo, 2012). Market risk is the decrease in the value of an investment or trading due to the change in value of the market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates, and commodity prices. The related market risks are: equity risk: the risk that stock prices will change. Interest rate risk: the risk that interest rates will change. Currency risk: the risk that foreign exchange rates will change. Commodity risk: the risk that commodity prices such as corn, copper, crude oil will change. Risk modeling means the use of techniques in order to determine the financial risk. The techniques include market risk, value at risk, historical simulation, or extreme value theory in order to analyze a financial situation and forecast the losses (Crockford, 1986).

The financial risks are categorized into credit risk, liquidity risk, interest rate risk, and operational risk categories. Political risk is considered one of the operational risk beside legal risk and the operational risk management. This type of risks faces the investors, government, and corporations. There are macro and micro-level political risks. The Macro-level political risks have similar impacts across all foreign actors in a given location. This means that it affects all participants in a given country. Micro-level risks focus on sector, firm, or project specific risk. The political climate has a direct impact on every company and all businesses (Crockford, 1986).

Politics is the process where a group of people make collective decisions that arrange the public regulations. Politics show authority and power that permits the government to manage and control the internal stability.

The government failure occurs when it lose the ability to provide the civil his financial, social, and economical rights, in addition to the ability in controlling the political security. This can occur for the following reasons:

Poor Information: this means that politicians may have poor information about the type of service to provide.

Political interference: this means that politicians may take the short term view rather than considering long term effects.

Lack of incentives: There is no profit motive working in the public sector which can lead to inefficiency.

According to Bato (2010), the relationship is between the political freedom and the economic is statistically significant. Political freedom is connected with the concepts of equality, civil liberties, and human rights. It provides the country the ability to start a new beginning that improves people lives. " According to political philosopher Nikolas Kompridis, the pursuit of freedom in the modern era can be broadly divided into two motivating ideals: freedom as autonomy, or independence." There are different types of political failures:

– A crisis of state authority which is represented by military pressures, a succession crisis, or severe corruption. This can reflect the rise of religious sectors against the ruling government.

– Major divisions among the official, military, economic, and religious experts of the country.

– Economic conditions that seem unjustly on workers can be the main factor in government failure.

– A broad culture of opposition that unites different social and political groups that encourages efforts to oppose the government.

The political revolutions are the activity that aims to change the government and the political system that leads to instability in the internal political situation that has negative effect on the economy in addition to the destruction of the structure.

Europeans spoke of revolutions when one form of government gave way to another or a city-state's government shifted between republican and aristocratic rule. The notion of revolution destroys the old ways in order to bring new progresses that improve the performance. The revolutions were involved in: Economics: the shift from agricultural to industrial economies is called the Industrial Revolution. Science: Scientific Revolution is used to indicate the shift from traditional natural philosophy to experimental science. Moreover, the revolutions were involved in improving the performance in military and other aspects (Bremmer, 2007).

Political revolutions is used for sudden changes in the government through demonstrations and accompanied by attacks on government officials, on public or private property or any other political authority.

When the revolution change government institutions but leave the economic and social structure; they are called social revolutions. While they are called the great revolution if they change the government structures, the organization of the economy, the social hierarchy, the role of religion, and major symbols and beliefs regarding authority and national identity.

Revolutions are a form of internal political conflict that relates to popular rebellions or civil wars. Revolution is not just challenges to political authority for power but efforts to change a society's major political or economic or religious institutions.

Political revolutions is the result of government failure, therefore it aims at improving the economics of the country by changing the government and political structure (Bremmer, 2007).

The modern idea of revolution that developed in the eighteenth century was to show revolutions as progressive changes in the social order. These changes replaced outdated and unjust political, economic, religious, and social institutions with a new social organization.

The political revolutions have different objectives (Bremmer, 2007):

Constitutional revolutions objective is to replace traditional empires with republics bound by newly written rules that would limit state power and give rights and responsibilities to citizens. As an example on this type: the American Revolution 1776; the French Revolution 1789; the Revolutions of 1848 in France, Germany, and Austria; the Turkish Revolution of 1919; the Iranian Revolution of 1905; and the Chinese Republican Revolution (1911).

Anticolonial revolutions objective is to end rule by foreign countries. Some examples include the Latin American revolutions 1808-1828, the Vietnamese 1954 and Algerian 1962 revolutions…

Communist revolutions: inspired by the historical theories of Karl Marx, aimed to overturn existing government and replace them with one-party states that remove private property. They revolutions created dictatorships that destroyed economic elites. For example on this revolution type, Russia 1917, China 1949, and Cuba 1959.

Antidictatorial revolutions: it is the result of corruption of dictatorships, aimed to create new governments based on constitutions or one-party states. For examples Mexico 1911, Nicaragua 1979, and the Philippines 1976 (Bremmer, 2007).

People are involving in selecting the right government that can provide them strong economy and stable politics situation. The impact of the revolution on the economy is negative during the act, beside it need a period of time in order to rearrange the regulations and control the financial market. The stock market price will decrease since the demand will stop all the revolution period. Moreover the exchange will stop due to the difficulties and risk in transporting.

Arab countries have successful take their independents from the occupational countries. However, the leader who have organized the anticolonial revolution, ruled for a long period of time without respecting the country’s constitution.

The majorities of Arab young are educated and have the ability to be productive in his country. However, they are struggling to find full time employment due to the mess in distributing the job on unqualified people who permit the government to work for personal benefits.

The Arab reaction to the popular movement in Tunisia was surprising since they were motivated to move against their own governments. Arab countries lack political freedom beside to the economic difference (low income people, or high income), therefore they may use Tunisia sample in their own internal revolutions.

The revolutions show a new beginning of a new Arab countries that aim at changing the governments that stole their economics resources by a government that provide them a strong economy.

However, the fact is that The Egyptian market remained closed for the entire month of February even as the hardest hit markets were Oman and Qatar, down10. 2% and 9. 3% respectively for the month of February, while Dubai lost 8. 1% and Saudi 6. 6%.

Investors seeking to reduce risk were forced to sell out of other Middle Eastern markets, including Qatar and Saudi Arabia.

All countries within the Region are different with respect to their social, economic, and political challenges. However, we may witness further pockets of changes across the Middle East. The fire that engulfed the Arab communities commenced in Tunisia, spread to Egypt, and transformed itself into a distinguished moment in the history of the Arab nation. Tunisians and Egyptians surprised the world with the speed and dynamic nature of the revolution that within weeks achieved its objectives. The impacts of these revolutions are still expanding to stimulate the Arab masses to change their internal governments in Libya, Saudi Arabia, Morocco, Yemen, Bahrain, and in Iraq.

After undergoing the study, the collected data through both data collecting tools, secondary and primary, shows that the political turbulence has a negative impact on the financial economy.