Insight on macro economics

Economics

Question 1: financialglobalization

Over the years since World War 2 we have seen economists battle on the idea for and against of financial globalization.

The topic had been there during previous years but not much attention was paid into it, it only attracted attention after the effects of World War 2 let to social unification. This is idea suggests that all the countries of the world should unite economically by setting up a global financial institution to standardize al the economic activities of the world.

The pros and cones have laid out with case studies on regional bodies and domestic financial institutions being cited to back up various claims that take different stands on the issue. Both Mishkin and Rogoff acknowledged that if the world would be a better place if it had a global financial institution.

Even with this in mind, they never failed to say that the idea is a pipe dream as there are many economic, social and political variables round it. Unifying all the three factors would be daunting even from the onset and it would be a miracle if the unification worked. They stated that even if all odds were beaten and the institution was formed; developing countries would end up losing market andmoneyas the developed countries would exploit them.

The two agreed that if formed, the international institution would be more successful as it will have many investors from developing countries and be disbursing high return interest loans to developed countries for them to invest in developing countries. Professor Kling agrees with the two economists up to the point that formation of a global financial institution is an imaginary (Lawrence-2001) object but takes a turn on the point that the institution would be more successful.

Kling argues that economic problems domestic institutions face are the exact one the global institution will face but a larger and much devastating state. If a crisis arises, the international institution would cut the money it loans and raise the interests on the money. This would not be harsh stance as just like any business, the institution would want to grow its profit base and reduce risks.

Developing countries that would by then be so dependant to the institution will be affected terribly as the probability of their economies collapsing would be so high. Mishkin, Rogoff and Kling all agree with this theory and each of them made reference to the behavior of the international monetary fund when an economic crisis arises.

Benefits that the international institution will pass to the global community fixed. It would quickly restore liquidity if asked to because it would have a perpetual stability and flow of cash. Making available long term loans will be an easy task for the institution (chui-2002). Opening markets will be among the merits of an international as all countries will be operating under the same economic laws.

Diversifying the market base will be another benefit as there will be numerous markets for different goods. Note; the previous statement will work if the global community allows production specialization policy to work. All these benefits have been agreed to by Mishkin and Rogof but Kling refutes the point that loans will be available to all countries. He says that is an impractical suggestion. There are elaborate disadvantages of the international institution if it is formed. Huge disparities in economic growth would be inevitable.

We would see developing countries grow in economy as the developing counties would be seeing a drop in their GDP. The institution will cause an increase of taxes globally incase an economic bomb explodes and its liquidity goes down. The institution will kill productivity of small countries if it does not make policies that facilitate the smooth transfer oftechnologyfrom developed to developing countries.

Most of the skilled and unskilled labor force in developed countries will be left jobless as their companies will prefer manufacturing products in less developed countries that have low wage payouts. Question B1: contrast on transmission mechanismsTaylor and Lucas are profound economists that have made phenomenal economic revelations and added spice to works of Meynerd Keynes.

Their insight on transmission mechanism is what staged theirprofessionalismand expertise in the field of economics. They have divergent and convergent views relating to the topic; let us analyze them.

The similarity they hold is that they both support the use of short term interest rates and investment on short term high return bonds and securities to propel economic growth, better known as financial market price review (taylor-1995). They say this is the only way the American banks maintain their liquidity. They also agree that how money is transferred between accounts and the number of times it circulates should be increased so as to maximize its efficiency; this is known as limited participation (tobin-1969).

Credit view is one of the clashing points between the two professionals; Taylor fully supports the policy but Lucas admonishes it. Taylor advocates for unison change in lending rate policies among banks as Lucas stands for free financial flowing activities.

Question B2: not what they had in mindKlings books explains a chronological order of events that led to the 2007/2008 financial crises that left many big companies bankrupt and with large debts, this is the year in united states history that stock prices shot and the exchange market remained shocked. He states that it is also a yearto be rememberedas there was widespread public outcry because people were being kicked out of their mortgages (kling-2009).

It depicts how the bad economic policies made by previous governments led to the catastrophic time. He compares the laws of the times from 1930 to 1970 then 2001 when the policies were changed but that that could not save or salvage the 2008 disruption from taking place. The title highlights that the thoughts that were behind the previous policy makers did not come to be as they made poor economic judgments.

The general idea is that the policies be changed and that companies customize the laws according to their own needs to avoid a scenario similar to the 2007/2008 one. The book gives insights and acts as a wake up to the policy makers, the banking and insurance companies and the general public;

main consumers. Mr Kling urged the public to come up with innovations that would help cruise through bad economic times like the one in 2007/2008.

He also urges the government to thoroughly scrutinize bills before passing them into laws as they would turn to be harmful in future times. He made the previous as a sig to acknowledge that economic forces are not static and they require revision from time to time. Here he lay an example that innovation would help reduce future effects as they did by helping quash the Glass-Stealgall act of 1933 (krugman-2002).

The act prohibited interstate banking and also outlawed the merging of investment and commercial banks. Many economists including Kling said that the policy makers of that time passed the act as they thought that if banks were allowed to operate nationally they would be more powerful than other federal agencies.

They also thought that merging of banks would create a monopoly and catalyze an economic breakdown. By equityfinance; financial institutions would be reducing the economic burden by sharing risks. Kling sees this method work more efficiently if financial institutions merge. He also adds the money to be placed in the investment should be given I bits.

This will allow the institution to study the market as the venture grows, in case they notice a downward or predict a loss the company can always pull out of the deal safely. This method has fewer sets of threats to loss than giving out all the cash for investment in one bit. Equity he says will prevent a coming from running out of liquidity.

If the investment return is high, an institution can always remain in service even if it is funding different projects from different parties. In his introduction Mr Kling named bad bets and excessive leverage to be among the four practices financial institutions engaged in that led to the crisis. Prior to 2008 many lenders would typically really on institution credit scores before giving out loans; if they noticed that the borrower had good scores they would not hesitate giving him the loan in one sum.

They did this even before assessing investment they were funding. The financial institutions would later come back to collect the money or claim the property, this is what led to the collapse of minor banks in the US. In his analysis if the matter he states that equity finance can help counter this effect as institutions that use it will save money and reduce the risk of becoming bankrupt by 40%. It is the excessive bets placed on none return investments that lead to excessive leverage.

He structures the equity funding policy as a way of keeping the financial institutions in check with their investments. The actions that I would propose to the state is; creation of a federal body that will be mandated to assess the market viability of projects and investment opportunities. This body should then approve and certify that the project is truly worth the money requested in the quotation.

I also recommend that banks be more open with their liquidity information and hand it over to the body that certifies projects. After certification the body will now recommend the project owner to an institution with that kind of money. This action will save many banks from collapse as many of them succumb to greed; bad bets.

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