

Contemporary issues in finance

[Sociology](#), [Social Issues](#)



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Introduction

“ How have financial markets reacted to financial-sector reforms after the crisis?” By Schafer et al. is an article in pursuit for the extent to which the financial reforms have been adopted in many countries globally. The global economic crisis caused financial strategists to look into ways through which they would change their financial systems to counteract the effect of the crisis. This paper is a critique of this article in the manner it reported whether the reforms have been had a positive impact to the independent countries. The paper will also point out the shortcomings in the article about the financial reforms.

Summary of the article

This is a well researched and documented article covering the extent to which financial reforms have been adopted by many countries in the world. Schafer et al. articulates that Lax-financial sector regulation is the major cause of the global crisis that forced policy makers to innovate ways of dealing with the reforms. However, the introduction of reforms by various countries or multinational companies has had a lot of varied impact based on the reform and country. This is evident from reviewing the banks stock

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returns that demonstrate that four major reforms in the US and Europe has drastically reduced the bailout expectations. The Dodd-Frank Act is one of the major reforms initiated that has caused the strongest effects while the German restructuring law provided the least effects after the reforms were implemented in response to the global crisis(Schafer e al. 2013).

The G20 sorted to establish radical measures to overhaul the financial system after it was identified that the existing financial system was faced by a near collapse. The financial system was faced by the collapse because there were unprecedented support measures from the public sector and central governments that would deal with the global economic crisis that hit the world in 2009 (Veronesi & Zingales 2010). As a result, each country decided to initiate its measures independently providing structural measures that promoted prohibitions of activities whilst ring fencing of the retail banking (O’Hara & Shaw 2010). These measures are a major impact in the regulating the financial strategies of the world although most people observe that nothing much happened during the crisis and even the so called reforms have had less impact to the countries. At this point, only the financial strategists can be able to understand the impact of the reforms as it does not make sense in the eyes of a person who does not understand how financial matters are dealt with in business.

The article covered the regulatory events in the banking industry between June 2009 when the global crisis was at its peak and 2011 when the reforms had started bearing fruits to some countries. Four major reforms in the article are; the Dodd-Frank Act in the US, the reforms proposed by the

Vickers report in the UK, the restructuring law and bank levy in Germany, and the too-big-to fail regulation in Switzerland (Schwert 2011). The reforms were used by different countries using different approaches to deal with the weakness demonstrated by the global economic crisis. The weakness revealed through the crisis include; a prohibition of risky activities, ring fencing of systemic activities, establishment of resolution procedures and special capital regimes for systemically important banks to address the weakness in Volcker rule in the US, UK, Germany and Switzerland (Fратиanni & Marchionne 2009).

Critique

This article is well informed about the financial strategies, and its analysis gives an accurate position regarding the impact and effect of the reforms. This is due to the fact that the information used to analyze the questions was obtained from the bank stocks information for different countries based on their financial strategies. Its objective was to answer two questions: has anything happened in financial regulation after the global financial crisis and whether the structural reforms have been registered in equity valuations and credit default in their individual banks. According to the article, it has found out that the answer to these two questions is yes. Further, this means that the reforms initiated in the four major countries has been able to bailout expectations and lower the equity returns in their markets.

Under normal financial environment, these two questions cannot be categorically being stated as yes. Based on the financial mechanisms it is hard to predict whether enough has happened because the reforms were

developed specifically with the interest of promoting the safety of the financial system. The article demonstrates that the major four reforms have been able to lower the bailout expectations in their respective countries. As research as established, lower rates of bailout expectations have an impact of creating a lower risk taking individuals (Boyd & Gertler 2004). Therefore, at this point it is difficult to tell whether the reforms have been effective or simply people in these countries have become risk averse. The best answer for the questions highlighted in this article is that the only time would effectively determine whether the reforms have effectively instituted measures to deal with the economic crisis in the future.

On the other hand, it is not standards to identify at what level is the reform successful. There is no standard measure to be applied to the four reforms to be able to explain whether they have attained the ultimate goal or more strategies should be implemented. The basis used in the article is a drop in the equity prices and a subsequent increase in the credit default swaps which does not shut down the system in the individual countries. A comprehensive and successful strategy should be able to distort the cause of the systemic risk so that it cannot happen in the future. This can be effectively be done by comparing the results to the funding costs differential (Ueda & Weder di Mauro 2013) In this measurement criteria, the values of the current financial year are compared to the values of 2009 which will demonstrate whether the reforms have effectively reduced the distortions or at what level has the distortions been reduced.

In regard to the second question, the article establishes that some of the reforms are better than others. This is true because every reform was developed with an underlying and competing philosophy. The reforms were not commonly developed to serve the same problems and weakness brought out by the global crisis. For example, the Volcker Rule and the ring fencing approach can be applied in different banking systems. Contrary, the Swiss and Germany reforms were instituted to promote capital buffers and adverse resolvability. As such, the default swap changes do not accurately pointy at the effectiveness of the reform strategy. The impacts provided by the four reforms do not pass to be used as the criteria to determine which among the reforms has been able to deal with the weakness provided in its financial system after the crisis. For example, the Germany reform cannot be ruled out as ineffective, but it is just irrelevant to the financial practices because it is executed at the national level. Here, no system can effectively point at its impact in dealing with the crisis. Therefore, the best assessment of the reform implemented on each of the four named above lies in the future.

The G20 initiated the development of the reform strategies with the aim of reducing the impact of the global crisis. Although the strategy might have well been good, it is difficult to develop a common strategy that would be applied to all the countries in the world. For example, in the Eurozone, the financial problem has been identified and a vigorous supernatural reform strategy implemented best to the identified problem which is majorly with the banking unions. Based on this example, it is difficult to develop a common strategy treaty would give the solution to the different financial systems. This is because problems are not identical for all the countries.

Additionally, the Basel process is a good global initiative, but it has not established a robust framework for the establishment of cross-country resolutions to be instituted. However, this has led to individual countries in initiating different banking systems that they deem better for their problems. As a result, these different approaches may lead into a more devastating financial problem than the global crisis.

Conclusion

The article “ How have financial markets reacted to financial-sector reforms after the crisis?” points at the fact that the financial markets have been able to deal with the effects of the global crisis. It focused on four major reforms that were initiated in the G20 countries in response to the crisis. Although this article provides factual data from the banks in individual country, its conclusion may not be accurate. It is difficult to answer the question provided in the article because the strategies have been implemented at national level by each country. Secondly, the problems are not the same for the various systems therefore it can be established further which of the strategies has been able to deal with the crisis effectively. Therefore, the best answer for the argument presented in the article is to wait for time to tell whether the reforms are comprehensive. It is only after the fullest of time that it will be established whether a reform strategy has been able to completely distort the system that generates the crisis.

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