Kuwait stock market crash essay

Finance, Investment

Kuwait Stock Market Crash Kuwait's stock market was a good example of an economic bubble, which grew so much at an unprecedented rate but ended up bursting. Because of the rise of the oil prices at the late 70's, Persian countries which have an abundant supply of oil came into scene. This tremendous rise in the prices has made these countries wealthy, and that includes Kuwait. Because of these, the Kuwaiti shares soared, where rich Kuwaitis turned to stocks as their form of investment in order to safely store their wealth. With their confidence in their stocks, Kuwaitis began trading with their post dated checks.

Their checks bear tremendous amounts, some even reaching billions of dollars. They were too confident that they will surely have the money before the time that they will have to pay. Kuwaitis have a tradition of trust, that's why they are confident with the trades using post dated checks, since as fellow Kuwaitis, they wouldn't violate the tradition. The post dated checks had then become speculative capital, and that, as a few years went by, had led to their downfall (Vronsky & Westerman, 1999). After the Kuwaiti stock market burst, the Kuwaiti government stepped in, assuming control in order to rise back again. They resorted to employing stricter conditions and regulations so that they could recover from the crash. It was a great loss, since the hype of being at the top was suddenly replaced by plunging directly to the bottom without much of a slow decline.

In order to recover, they have to take into consideration every important aspect in the Kuwaiti economy, since it suffered greatly from the crash. Most of the Kuwaiti investors lost a lot of their money since they have converted their riches into stocks for safekeeping, but the other thing happened to them. When it came to the free market, the country has invited foreign investors, to aid them in reconstructing what was before a very prosperous stock market and economy.

They concentrated the labor on the people themselves and reduced their dependence on foreign labor, so that the Kuwaitis would remain as the majority in population of the country. Another effort was through implementing stricter regulations on investments and credits made by the people. That is to assure that they are not making the same mistakes as having the tradition of trust rule them, wherein they were so into spending post dated checks which has led them to their downfall. The government also has the capacity to control trade deals and to block them, whenever they deem it unnecessary or risky for the stock market or the economy (Stock Market Crash!, 2006). Another was to maximize the production of their number one resource which is oil.

They have invested on oil production more than anything, in hope for the country’s recovery and slow growth. Because of the abundance of oil in the country, the effort has been well rewarded, since it has slowly helped the stock market and the economy of Kuwait to rise slowly but with certainty. It has been the government’s top priority to maximize oil production, since it’s the most practical way for them to recover from the damages of stock market crash (The New York Times, 1983).

Kuwait, uniquely experiencing what has happened to them has learned a great lesson especially when it comes to the stock market. They were once so huge that they weren’t able to contain it, it burst. Because of this lesson, the country strived hard to recover, and hopefully, not to repeat the mistakes that they have made in the past, wherein they have to reconstruct everything, starting all over again from scratch. There have been ways which were conceived in order to avoid the stock market crash again. They utilized technical tools like technical programs that could serve as a preemptive measure if ever a possible crash is underway.

This preemptive measure utilizes the current level of the stocks. Taking for example a certain stock where we assume that it is decreasing at a certain rate. If ever it decreases by 10% before 2 pm, then the trading stops for an hour.

If there is a drop of 20% before 2 pm, trading stops for 2 hours. If ever it reaches a drop of 30%, then the trading is called off for the day. These preemptive tools are designed so that it could " cool off" the situation and let the market catch its breath, so that a possible crash could be avoided (Little, 2004). Another way to avert this stock market crash is to cut the margin requirement on stocks, lowering them from 50% to 25%. Margin requirements are made so that stock prices don't get bid too high on credit. But in a possibility of a crash, doing so can attract big investors that can buy or sell several times more by trading stock options and futures (National Review, 1987). References: Little, K.

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