

# Financial analysis paper essay examples

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The 2008-2009 years saw the world go through the largest and, sharpest drop in its economic activity. The after-math of the chaos has seen several of the major developed and, developing world economies fail to adapt to the shifted financial landscape.

The 2008-09 crises is defined as the collapse of the Enron, the WorldCom, the sub-prime mortgage market, and the flop of other financial markets which in totality resulted in a steady increase in risk premia around the globe. In determining the factors that led to the world's modern age economic downturn, it is paramount to appreciate that the events leading to the clutter were sown in the decades long before the crisis in 2008. Those factors were already in place and, affected the global financial dynamics independently of the 2008-09 crises. For instance, there were large global events preceding the crisis such as the rapid rise and growth of China's financial power and, the 1997-08 Asian Financial Crisis that were already in play re-shaping both the level and, pattern of the world trade (McKibbin & Stoeckel, 2009).

For instance, the growing global imbalance between China (surplus) and USA (deficit) in light of the large dispersions between savings and, investment led to large differences between exports and, imports that greatly tilted the global economic balance. Above and beyond productivity trends shaping the baseline for the 2008 financial chaos, some of the notable events that triggered the downturn include the capital inflow into USA dotcom stocks from Asia that drove up equity prices. The capital inflow was attributed to the 1997-08 Asian financial crisis. The crisis saw the Asian economies spawn large current account surpluses that prompted the need for offshore account

investment in order to sustain the low nominal exchange rates in the region (McKibbin & Stoeckel, 2009). Additionally, lax financial regulatory oversight mechanisms allowed investors to chase high yields and, returns as leveraged deals in the housing market became common coupled with easy credit and, low levels of risk premia. Finally, the late 2004 to early 2008 global commodity price rise across oil and oil products, food and minerals and the rising demands from India and China populace caused global imbalances that accelerated the crisis. Each of the above global events collectively or singularly set up the dynamics that resulted in the world economic recession in 2008.

Almost every time something unpleasant happens, it has become human nature to point fingers and, trade accusations. There was no solitary individual or unit that single handedly led to the 2008 financial crisis. In this case, the clutter was a collective construction of the world's investors, homeowners, lenders, banks and, the central governments.

However, the prime perpetrators for the 2008 pandemonium were the mortgagees and, therefore, most of the culpability were directed to the mortgage originators. The main reason is they advanced money to individuals and, businesses with high risk of default and, poor credit history. Hence, the market was flooded with capital liquidity which lowered the interest rates and, depressed the risk premiums. It led to investors and, potential investors calculating uncertain opportunities to support their return in investments (McKibbin & Stoeckel, 2009).

The 2008-2009 dramatic fallout of the global financial trade stimulated reactive government responses with unprecedented enablement of both

monetary and, fiscal policies. Notable event in response to the chaos was the Troubled Asset Relief Program (TARP). The Emergency Economic Stabilization Act created TARP to address the 2008 financial crisis. It was after asset-backed securities; especially those owned by subprime mortgage suddenly fell in value and, became illiquid following the bursting of the housing and, homeowners bubble in mid-2007.

TARP, under its several programs stepped in and, restored some liquidity by purchasing the troubled assets. It temporarily calmed the financial markets and, through that reduced potential losses to firms that owned them. The TARP program provided funds through its various programs that were dispatched to stabilize banks, increase credit availability for individuals and firms, and stabilize other trouble financial institutions.

For preventing another crisis that occurred in 2008, it is recommended that governments around the world decrease unemployment rates by expanding social safety nets and, investing on skills for the unemployed.

## **References**

McKibbin, W. J., & Stoeckel, A. (2009). The Global Financial Crisis: Causes And Consequences. *Asian Economic Papers*, 9(2), 1-12.