Failure of the strategic systems

Finance

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The current situation of the global finance situation has been aptly summarized by Essen who calls it " worst financial crisis since the Great Depression (Essen, 2008, Pg. 1)". The root cause of this crisis is the subprime mortgage lending engaged in by American banks and international branches of banks operating in America. During the time of a short-lived economic boom, housing mortgage seller lured buyers into accepting mortgages with little down payment and proper scrutiny of the credit risk associated with those mortgages.

These debts were then sold as high risk debts to international investors and the problems began to surface in June last year as two hedge funds operated by Bear Stearns collapsed. The financial world responded with uncertainty but they were reassured by the Federal Reserve Bank and the European Central Bank as both of them poured billions of dollars into the financial market. However, the crisis continued to grow as defaults occurred and interest rates were not raised to stem the growing credit market (Essen, 2008).

Lehman Brothers, JP Morgan and several other financial institutes were players that were heavily invested in these subprime loans and as their share prices went down, they looked for opportunities for someone to buy them out or for the government to bail them. In September of this year, the government announced that it would have to take over Fannie Mae and Freddie Mac in what is essentially a bailout of these companies (Kaletsky, 2008). The extent of the crisis was thus made clear to anyone who had any doubts about the situation.

Even companies such as AIG made mistakes as they traded in derivates while the economic system was going through difficulties. In fact, the impact of the financial crisis has been felt across the world as nations such as India and Australia have started raising alarms concerning the banks operating in their territories which had financial links to the banks and financial institutes which have gone south (Kaletsky, 2008). The White House has responded with another $500 billion bailout package for the financial markets but analysts are still doubtful if it will save a worldwide economic meltdown (Essen, 2008).

When examined in its entirety, it is easy to see that the problems were first created as banks decided to enter the subprime mortgage market which is strategically a very weak decision. Had the banks been more strategically aware, they could have judged the economic boom to be short-lived and could have also considered the long term impact of investing heavily in debts that can be taken as more than adequate risk. However, the strategy used by the banks seems to have focused more on short term results than the strategic evaluation and management of long term risk.

Works Cited

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