

2008 financial crisis essay



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Question 1 Hank Paulson played a critical role in the financial crisis of 2008.

How did Mr. Paulson help create the environment that led up to the financial crisis? What mistakes did he make as Secretary of Treasury when he had to manage the financial crisis of 2008? Do you think Mr. Paulson acted as an unbiased Secretary of the Treasury or did his background at Goldman impact his thinking and his actions? As Secretary of Treasury, Hank Paulson's lax supervision let too many subprime mortgage bonds get into the market. The investment banks purchased this big short, which was like a time bomb. This was the environment, which Mr. Paulson created to lead up to the financial crisis.

In March 2008, the Wall Street fifth investment bank, Bear Sterns, got trouble, as it set foot in subprime mortgage market and the real estate bubble began to burst. Because of the ability to figure out the problem, Bear Sterns was the first one to have the liquidity crisis so that the whole market panic. Fed reserve and DOF decided to let J. P.

Morgan purchased Bear Sterns, and Fed Reserve paid more on the loss, which we call the government gave Wall Street the bailout. And then, as the collateral economy, the third and fourth investment banks, Lehman Brothers and Merrill Lynch, got trouble some days later. As government was facing serious public duties for the bailout last time, they decided not to help Lehman Brothers and Merrill Lynch and gave a hand to the other Wall Street financial companies to merge them to ride out this financial storm.

Unfortunately, BOA was more interested in Merrill Lynch. Lehman Brothers had to seek the other company to get help.

Barclays tried to merge Lehman Brothers, but British decided to give up this deal at the last critical moment so that Lehman Brothers had no choice to apply for bankruptcy before the stock market opened on Monday. However, I think Hank Paulson's mistake was that he didn't advance the internal forces of the government to solve the problems of Lehman Brothers, like they did on Bears Sterns, and again and again to deal with the immediate problems without considering the consequences in the long run, when he had to manage the financial crisis of 2008. Lehman Brothers' bankruptcy not only spread to the other big investment banks, but also affected seriously to AIG, Fannie Mae and Freddie Mac in order to influence the whole world's economy. Although Hank Paulson made some mistakes on his decision, I still thought he was an unbiased Secretary of the Treasury, even the special background at Goldman. From his decision on Bear Sterns and giving up to use government's force to help Lehman Brothers and Merrill Lynch, I could find out that he was the person who took care of the bigger companies.

His each decision was to help the country's economy, but not any specific company. Question 2 Do you think the European Union will move towards full political integration or do you think the EU will eventually disintegrate? The European Union is facing their economic crisis, the question concerning about whether the European Union will or will not fully toward integration is really depend on them. However, in my opinion, they will " have to" finally give up on the Euro, and European Union should move toward political integration to end the debt crisis. The whole European economic is somewhat like the domino effect, which is if one down, the rest of will go right after it.

It might be not extremely appropriate to compare their situation to the American finance system, but something similar is when Lehman Brothers finally declared bankruptcy, most greatest investment banks in the America were hurt by its bankruptcy, and eventually lead to Capital injection. The European Union has a unified economic system, which is Euro; their problem is not just about one country, but all the countries within the European Union, and even the whole world. Moreover, a monetary union can't work well if they don't have some fiscal federalism and coordinated economic policy. It is clear that short-term financial stability in Europe can only be achieved with a credible long-term strategy in a political and fiscal union.

In this sense, the crisis in Europe today is actually above fiscal and political. In short, the first task of European leadership today is to rebuild the European idea. Even in the debt crisis now, the central European entity has the ability to ensure revenue at the federal level to provide everyone public goods. EU need to remind everyone that the stable life and the rising prosperity European public, even the whole world, have ow has been due to the path toward unity. There is no doubt that the European integration's contribution on Economic prosperity and absence of war. That is why more European integration, not less, is the only solution to whatever problems they encountered and they will meet in future.

Question 3 What firm bears the greatest responsibility for the financial crisis of 2008? What was this firm willing to do that no other firm was willing to do? Did this firm survive the initial year of the financial crisis and is the firm still in existence? What role did Warren Buffet play in the financial crisis? How many investment banks paid the price for the financial crisis? Who were

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they? Were some investment banks actually rewarded as a result of the financial crisis? If so, how were they rewarded? As the bankruptcy protection of Lehman Brothers, lots of company that invested in Lehman would be the next victims in the financial crisis, because their huge investments in Lehman got a big short in a sudden. They could get any cash from them in order that they could operate normally. Among these companies, AIG bear the greatest responsibility for the financial crisis of 2008. AIG is short for American International Group, which is a huge company cooperate with many companies or countries in the world. If AIG got trouble, it would spread to most of companies that led to the world's financial crisis, especially Europe. The closure of systemic financial risk had no control, and the collapse of the financial system would cause massive unemployment, the end of countless old-age insurance and social security intermediaries.

The consequences could not imagine. I think AIG was willing to be public ownership by the help of government, which no other firm would like to so. As the important of AIG, the government had to support AIG a great help, or the financial market would be weaker and family's wealth would reduce. They borrowed secured by all assets of AIG, and the sale of company assets expected to be obtained the recovery in order to maintain a balanced budget.

Therefore, this company was survived and still in existence. Warren Buffet played a very significant role in this financial crisis and he appeared three times in the movie. Firstly, he gave help for Lehman Brothers to get it out of the terrible situation, but Lehman Brothers rejected his deal. Secondly, AIG looked for help from Warren Buffet, but he rejected. Thirdly, he helped

Goldman at the end, when Goldman got big trouble, and figured out the problem successfully by investment 5 billion to them and attracted another 5 billion from investors as well.

Simply, the appearance of Buffet Warren told us how big mistake Dick Fuld made. He was like a straw or savior for these investment banks. There were nine investment banks were paid in this financial crisis. They were Goldman Sachs, J. P. Morgan Chase, Citi Bank, Morgan Stanley, Wells Fargo, State Street, Bank of America, New York Mellon and Merrill Lynch.

They got the money from the government in total of 125 Billion and the government hoped that they could lend this money out and restore the credit of bonds so that people would continue to borrow money rather than taking out the cash from the banks. Their rewards were this money or cash from the government. Question 4 Review the Kmart/Sears case in the text book. Recall our class discussion. Would you have recommended making the investment in / acquisition of Sears? Why or Why not? Would you have recommended the subsequent investment in Kmart? Why or Why not? I would like to recommend making the investment in Sears. In Iowa, I can easily find Sears, but no Kmart.

Sears have a good location than Kmart, which in most of malls. In making these new outlays of cash to acquire locations, Sears would clearly be taking a risk as increased it leverage. It would also for the first time be entering the off-mall arena. In USA, most of people will go shopping in mall so that it brings huge customers for Sears.

At the same time, it can guarantee Sears's sales and profit, which is a good idea for investor and has a low risk. We could find the balance sheet for Sears in textbook; Sears's assets in December 2002 is 50, 409 million and the debt is 3, 755 million, which indicates it really has big income as I assume before. Comparing with Sears, I don't recommend making investment in Kmart. Kmart does not have a good location, which I have never seen it. They lose the basic competition potential with other this kind of market, so that it will affect its profit every year.

From the balance sheet for Kmart, its asset for 2002 is 11, 238 million, which shows that it has a good asset, but when I see the liability, 8150 million, I get that the profit is not as good as Sears. Therefore, if you invest to Kmart, your earning return must be lower than Sears. And after mismanaging its Internet efforts and finding itself unable to keep its supply chain as low-cost as rivals Wal-Mart and Target. Kmart had low sales per square foot, and companies from customers that the stores were disorganized and run-down.

As Mal-mart use technology to reduce inventory and it enjoyed a significant price advantage that a series of Kmart executives failed to overcome.

Therefore, Kmart is not as a good investment as Sears. Question 5 Recall our viewing of Too Big To Fail. Dick Fuld of Lehman Brothers was presented as having made several mistakes in his management of Lehman through the financial crisis.

What were the two biggest mistakes he made? Describe what the mistakes were and why they were so critical. Why did Fuld make these mistakes?

From the viewing of Too Big To Fail, Dick Fuld of Lehman Brothers had made

two biggest mistakes, which led to his company have to apply for bankruptcy. As the decision from Hank Paulson, Dick Fuld had to look for buyers to merge the company. At the beginning of the movie, Warren Buffet had the interest on Lehman Brothers and decided to merge it, but Dick Fuld rejected his help and he thought the price from Warren Buffet was too low.

According to the whole movie, we know that Warren Buffet invested 5 Billion to Goldman to help it as a survivor. Goldman was the only financial company that got the help from Warren Buffet. His huge popularity helped Goldman attract subsequent investors' 5 Billion support. If Dick Fuld was not so arrogant and conceited, he would not apply for bankruptcy and lost his company. In other words, if he accepted Warren Buffet's help with a low price merging, he not only could save his company, but also might attract more customers or investors to support his company, as the popularity of Warren Buffet.

That was reason why this first decision was such a big mistake and it was critical for Dick Fuld himself. His second mistake was also that he lost the supporter to purchase his company. After Korean checking the information and deciding to do so, Dick Fuld appeared and would like to change something in order to displease them. They thought Lehman Brothers had no credit to continue their deal so that Dick lost a good opportunity again. Comparing this trade with Korean, I could see how big the mistake he made for the first one with Warren Buffet, since Warren Buffet brought more benefit for Lehman Brothers.

If he didn't change anything, he would not cooperate with Barclays and British would not dally with his company in order to let him in a so bad situation at the end of day before the stock market opened. If so, he would not have the late night frustration to make the decision with the board of directors to file for bankruptcy protection. I think a lot for the reason why he made so many mistakes. The first was his personality and ability that he had popular criticism of his use of personnel and his arrogant style was difficult to win sympathy. As a big investment bank, he thought he could have a better choice than Warren Buffet even bigger trouble at the beginning, because government would be his straw.

If his company applied for bankruptcy, it would affect too many important companies and led to a serious financial crisis, because lots of company had the investments in his company. In other words, his company was as good as the others investment banks, like Goldman and J. P. Morgan, and the government would not give him up. Unfortunately, he didn't forecast that he was the only one who was given up.

Perhaps, his mistakes should not attributed to him, since he was confident to his government, however, the government didn't give him a good answer or help that he imagined.