Global financial meltdown: causes, consequences and remedies

Business, Industries

GLOBAL FINANCIAL MELTDOWN: Causes, consequences and remedies

The US Consumption Pattern

Due to high consumption of imports and declining exports of goods and services led to uneven consumption pattern. This effected the trade balance. There was deficit in trade balance and public budget dude to huge borrowings from China. Government with the central bank should monitor the credit limit and tax reports from the financial companies. Expertise in finances should be hired by the government to have a regular check with the process.

Subprime mortgage crisis

Crisis occurred when demand for mortgage-backed securities sold through secondary market were satisfied by bank by selling too many mortgages. It led to high demand for mortgage which resulted in the hype for asset housing bubble. The Fed reserve raised fed funds rates. Fiscal policies during recession on spending is important. The public investment should be directed towards the construction activities leading to economic growth.

World trade imbalance

As soon as China entered in World trade organization in 2011, it had an advantage of new global system. China started flooding the foreign markets with cheap exports keeping Yuan value very low. This helped China to gain huge surplus but increased the deficit for the US. The World trade organization should be more active with regards to balancing trade. China

should not be allowed to dominate by adopting unfair activities. Measures like quotas and taxes should be levied on such countries

Wage stagnation and inequalities

Global financial meltdown led to unemployment due to high rate of inflation. Individuals in the US started accumulating the debts since their income was not enough to offset the credit bills. Companies during recession should slow down or stop hiring drive. Cost cutting process is recommended rather than firing employees from the job.

Excessive deregulation

Due to financial market liberalization, the US government deregulated heavily to expand its role as dominant player. The government and Fed monitoring, and supervision were relaxed. Many derivatives were introduced, and involvement of many investment banks led to the bubble burst and froze credit market. All these measures were interrelated to interest rates. Central banks should resort all policies related to money during the crisis. These institutions should have the objective to reduce the interest rates which would result in minimizing the cost of borrowing loans to the private companies and business.