

The global economic crunch

[Economics](#)



The agricultural sector has been adversely affected by the economic meltdown that was experienced by the world economies in the year 2007-2009. Since most of the production by the small scale farmers is sold to the international market, the economic meltdown reduced the market for many farmers. The world economies experienced major decline due to poor performance of many industries. The production of vegetables was affected by the crisis due to lack of global markets. Many companies have incurred great losses and after the crisis, the agricultural sector has not yet recovered.

The crisis affected all sectors of the economy leading to a ripple effect upon all industries. The crisis was initiated by the subprime mortgage lending crisis in the US. The banking sector issued many loans to subprime mortgage intermediaries. Due to the expanding market in the sub prime mortgage market, many banks issued unsecured loans to the intermediaries. The climax of the boom was reached in 2007 when the prices of products started to increase and many subprime mortgage lenders were unable to repay their loans. This led to massive default of debts and banks registered huge losses.

This reduced the lending capacity of many banks. The resulting effect was lack of credit in the economy and the collapse of many companies. The agricultural sector which relies on bank credit for its expansion was adversely affected since many small scale farmers could not access the required inputs (Stapledon, 2009). The increase in fuel prices led to the rise in prices of many basic products especially the food products. Global inflation affected many economies and the subprime mortgage borrowers could not repay their debts.

The incomes of many people were constant despite the increasing cost of living, hence reducing the purchasing power of many people. The prices of oil and food products increased within a short duration leading to an economic crisis which affected many people in the US. Many sub-prime borrowers earn low incomes and the rise in prices for basic products increased the expenses for their living. Many employees were retrenched due to poor performance by many companies leading to unemployment crisis. The borrowers were unable to repay the loans resulting to massive defaults.

More than 100 subprime mortgage intermediaries became bankrupt and were immediately closed. Reacquisition of the houses from the defaulters caused a lot of people to become homeless (Stapledon, 2009). The banking sector was the worst hit by the crisis. The agricultural industry depends on the banking industry to a very great extent such that many farms were seriously affected since they could not access loans. Small scale and large scale agricultural firms could not afford to purchase the materials required to operate the industry successfully.

Inter-bank lending declined and banks had no money to issue to their customers. Most of the banks collapsed while others registered huge losses. The central bank could not lend to all the banks due to the massive crisis that affected the entire country (Stapledon, 2009). The U. S. has the largest stake in the international trade and the failure in its economy affected the global markets leading to a global economic crisis. Many countries rely on international trade to export or import their agricultural products.

A decline in the global markets created huge losses and many countries faced food insufficiency. Inflation increased as the prices of food and other products persistently increased. The entire world encountered economic crisis which resulted into failure by all sectors of the economy in the world (Stapledon, 2009). Conclusion The division of labor and specialization in the agricultural sector has led to the production of quality products as well as improving the quantity of production. The regional and multilateral trade agreements have been of great help to the small scale agricultural producers.

The multinational trade organizations have also assisted many farmers access the global markets. International trade has been of great help to many farmers in developed as well as developing countries. The use of technology has improved the production of agricultural products. International trade has encouraged countries to specialize in the production of goods and services. The mobility of factors of production has been accelerated by globalization. More industries are encouraging division of labor to increase the productivity of labor factors of production.

More industries have developed with the expansion of international trade. These industries create more employment opportunities to the citizens of a country. The agricultural sector has been very unstable and many farmers have encountered huge losses due to over-reliance on agriculture. The global economic crisis which affected global economies recently has reduced the performance of the agricultural sector leading to great losses. Increase in oil and food prices made the situation worse leading to inflation in almost all the economies of the world.

The recovery strategies of the economy should be adopted to enhance the growth of the sector. References Daniels, J., Radebaugh, L. , Sullivan, D. (2007). International Business: environment and operations, 11th edition. Prentice Hall. ISBN 0131869426 Stapledon, N. 2009, " Housing and the Global Financial Crisis: US versus Australia". Economic and Labor Relations Review. July. Volume: 19. Issue: 2. World Trade Organization (2010). What is the WTO? Retrieved 7 Apr 2010 from;