

Why markets fail essay

[Business](#), [Strategy](#)



Despite the popular opinion that “ free markets constantly deliver ideal outcomes for society by virtue of being molded by perfect competition”, most economies ‘ after successive failures of markets long considered to be at the epitome of free market paradigm’ have begun to think otherwise, as they argue that the ideals of ‘ perfect information’ being seized along with the most ‘ effective employment of resources’ are rarely achieved (Oxera 2008). Several reasons might be attributed to failures in markets for instance, its structure might restrict competition through monopoly or collaboration, that as a result promulgates competition policies and aid regulation by governments. It might fail due to exhaustive list of ‘ externalities ’ that might emanate from excessive competition between the competitors. Markets might fail when there’s dearth of, disorganized or un-educating information available to consumers or producers such that the lack of information turns into disinformation that in most cases paves way for regulators to step in to enhance consumer’s inculcation. It might fail when there arise principal-agent problem, such that in markets where there’s inadequate information (and governance), accountability might also turn out to be dismal, such a situation may surface when personal or group interests supersedes, long-term larger interests (emanating from defective policy making, poor strategizing, lack of farsightedness, short term gains, corruption, herd thinking etc). Market failure Since the adoption of single currency ‘ Euro’ (1999), Greece has been the first country that is confronting the most difficult situation since the birth of Euro-zone. This is the second country in continental Europe that is facing default-like situation after Iceland and fears are ripe that if the country is not able to pay off it’s outstanding

financial obligations' the brewing crisis ' that is as yet might be confined to Southern European shores' would spread to engulf entire EU. Reasons stated are the lack of credibility that has been rampant since her joining of Eurozone (2001) such that even in growth periods' the country had not been able to meet deficit threshold sanctioned by the SGP under the EU Treaty, by misleading European Union partners and the world through manipulative national financial figures in her year to year economic data (Bastasin 2009). Concealment and the subsequent ignorance of the EU economic commission had been such that, it had been forecasted by the commission that Greece would bear a deficit of 3 to 4 % in 2010, but her European patrons and the world were shocked when the real deficit turned out to be whooping 12.7 % (Bastasin 2009). In light of growing concerns worldwide of Greece melt down spread and the subsequent pressure by the EU, Greece government came up with drastic ' Austerity measure' to bridle the fleeing situation. But for the time being' Annapolis turmoil is spiraling the International markets into panic mode as investors are not willing to buy assurances emanating from European capitals.

Such that Dow Jones Industrial Average lost more than 9% or equivalent to 1000 points over the burgeoning perturbation, culminating into greater loss than the market depletion after Lehman Brothers collapse in 2008 (Auken 2010). Thus the death contagion is not just confined within the confines of Atlantic, Japan concerned over the potentially devastating impact of Greece fallout came up with 22 USD billion to rescue its own financial markets from facing any inadvertent hit (largest emergency BOJ injection after first shocks of Global financial crisis 2008), as their also lie grave anxiousness about

Japan's own burgeoning national debt. The Washington Post in this regard identified a steep, sudden fall in International stock and bond prices as evidence of "scary propositions" that tells of Greece fiscal crisis as spreading across Europe "like a virus while fostering doubts about the fate of EU economies that possess far more accommodating national debt levels"(Auken 2010). International financial markets are getting hit in a way that investors yielding into knee-jerk negative speculation spiral have shifted 'in hordes' on to selling spree, shedding off seemingly vulnerable government's debts 'that in this case spreads to all the conspicuous EU economies', thus constructing a kind of self-fulfilling prophecy. Such scenario would lead these countries to pay for higher interests rates to secure their loans thus instituting a "fiscal death spiral" (Schurr 2010). To stave off European financial market from another crisis 'after the US triggered financial catastrophe' EU has come up with colossal \$95 USD billion Rescue plan. This is meant to perk up the potentially vulnerable balance sheets of exposed European markets to ward off the brewing 'sovereign debt crisis', that could ultimately worsen the not-yet-healed global economy (Wolverson 2010). This was followed by European Central Bank (ECB) announcement of buying EU government's and private bonds "for insuring depth and liquidity" in financial market, along with US Federal Reserve declaration that it had "re-opened swap lines with other state banks to ensure that access to USD remains fluid" (Fidler and Forelle, 2010).

ECB decision to purchase eurozone bonds is meant to erect an additional safety net for the EU to contain the spread of Greece debt crisis from infecting other Mediterranean financial markets. These measures resulted in

buoying Euro and EU shares with pan-European stoxx rising by 4 percent, LSE by 3.5 percent and Paris's CAC-40 by 5.8 percent along with Asian financial markets like Japan's Nikkei by 1.

4 percent and Australia's S&P/ASX rising by 1.9 percent, while the Euro gained 0.03 cents over USD on May 9 (Fidle and Forelle 2010). The guarantees extended by ECB are "pro-rata" in manner as announced by Olli Rehn, such that the Rescue burden would be divided by each of the Union's country according to respective economy's size and strength with certain conditions. The strategy termed as "shock and awe" and implemented by EU-IMF collaboration is meant to give a clear message to investors and convince markets that "combined they can maneuver any sovereign debt problems in EU" said Eswar Prasad (Fidle and Forelle 2010). Thus by fading away this air of uncertainty and apprehension, EU is trying to restore the unsettled keel of stability to its original position (Elliotte 2010). The Greece market meltdown also tend to rectify founding problem in Euro currency paradigm, such that the commission has been mulling various option for entangling (inter-depending) Euro constituencies into one another, that would necessitate close coordination over the issue of orchestrating fiscal policies and practices, while penalizing governments and markets over dubious and un-regulatory affairs (Lavinson 2010).