

Trading financial risk and job essay

[Business](#), [Industries](#)



This paper will be talking about the financial crisis the world went through in 2007 to 2010. It will analyze the causes of the crisis and its effect to the world at large. It will also discuss in depth the various strategies different governments around the world should undertake to prevent the escalation of the problem.

We are all aware of the fact that the financial crisis started in the US. But we will try to analyze how it ended up affecting not only Europe but also Asia and Africa. In particular the paper will concentrate on the recession's implication to the job market, poverty level in the world and the financial markets. Introduction The 2007 crisis which is going on till now was as a result of the insolvent banking system of the US. This resulted in the bankruptcy of big financial institutions, the low trend in the stock market and government trying to bail out big banks.

It also affected the mortgage industry causing many evictions, closures and too long vacancies. It was the worst financial crisis the world had ever faced since in the 1930's. It led to the failure of big businesses; reduction of the consumer wealth was in trillions of American Dollars, increased government bail-outs and a decline in the world's economy (Schlossberg, pp 11). The declaration of global housing bubble bankrupt led to the decline of the value of real estate securities resulting in a worldwide damage of the financial institutions. Questions asked about bank solvency, reduction in credit lending and destroyed investor confidence had a very negative impact on stock-trading all over the world. Shares of companies lost big especially in the late months of 2008 and early months of 2009. There was a significant

reduction in the international trade and it was very hard for any government to access credit.

The agencies in credit rating and investors were criticized for failing to price the risk that comes along with financial products associated with mortgage. Also, governments worldwide were blamed for failure in adjusting the regulatory practices which had to match with the financial markets of the 21st century. The central banks of various countries together with related governments had to respond quickly by bailing out institutions, expanding the monetary policy and giving fiscal stimulus (World Bank, pp 269). Latest trends of financial markets worldwideThe effects of the decline in the world's economy started to be felt by the world financial markets in the 9th month of 2008. The global stock markets started performing poorly falling sharply. The world witnessed the widest and biggest ever bailouts by governments and declaration of bankruptcies by many firms to have ever occurred in the financial history of biggest financial institutions.

The world has also experienced the biggest fall in the stock markets. This downturn was the lowest since the global economy picked up four years ago. During the four years, the globe had experienced a stable economy (Kilonzo, pp 7). Causes of the financial turmoilFinancial institutions such as commercial banks, investment banks, insurance firms, mortgage firms, pension schemes and hedge schemes were the biggest contributors to the global financial crisis. Financial products also played a key role in the turmoil of the world economy.

Some of the products included assets and mortgages (which were backed by securities), mortgage loans, Debt obligations that are collateralised, and the companies that are insured in case they fail to pay their debts (World Bank, pp 102). Apart from the financial institutions and products that caused a fall in the economy, the fall of the interest rates of the US in January 2001 for a period of two years from 6.5% to 1% also contributed to the collapse of the economy worldwide.

In addition, the assumption that Collateralisation of Debt obligation could lead to a reduction and distribution of risks was a contributing factor in the drop of the global economy. This was so because of the securing of the mortgage loans and marketing them as CDOs in 2002 (Veseth, pp 234). Also the rising prices of homes in 2002, reduction in borrowing costs and existence of very risky loans forced the world economy to go down. In 2006, we saw American banks give loans to individuals and institutions with insufficient collateral or lack of financial proof. Mortgages were also not backed by the state causing a lot of finances to be lost as a result of default payment.

Apart from that, the rising of the US interest rates and reduction in the home prices as a result of oversupply was a major factor in the collapse of the world economy. To add salt to the injury, there was a rise in the default on mortgage loans with the homeowners not able to refinance the loans or sell their homes which were depreciating in value. The signing of Bankruptcy by the mortgage lender, New Century dealt a major blow to the economy. Also the decision by the Bank of England to give the Northern rock mortgage

company an emergency loan in the same year of 2007, affected the world's economy (Schlossberg, pp 87).

The falling of the shares of Fannie Mae & Freddie Mac in order to raise more funds was not successful. If that isn't enough, the government decided to take over the company in September. In the same month, most banks around the world were very strict on their lending standards and tight on credit too. This was further aggravated by the selling of Merrill Lynch and signing for bankruptcy of Lehman. In the same month, the government was forced to bail out the insurance firm of AIG.

In October 2008, the government of America decided to give \$ 700 billion to the financial institutions that were experiencing bad mortgages and lack of confidence by their investors (Schlossberg, pp 109). Effects of the financial crisis to the world at large Tax payers were the most affected all over the world for up to now they spent close to eight trillion US dollars to be able protect world's banks. According to the Bank of England, the financial firms around the world had lost up to 2. 8 trillion US Dollars due to the on-going financial crisis. In fact, these amounts were predicted to become larger as long as the crisis was still felt. The financial markets, (both the stock and derivative) all over the world acquired a bearish trend due to their loss of value.

It also led to the liquidation of many funds around the world. Those affected included the pension, equity, hedge and the insurance funds. The value of the Asset Portfolio was receding to enable them meet their obligations to their clients. In addition, the public finance was reducing very first due to the

governments' efforts to bail out big companies going down, which in the end resulted to the governments experiencing budget deficits (World Bank, pp 49). Also, most foreign currencies around the world became more volatile; this affected mainly countries in Eastern Europe and Latin America.

To make matters worse, most Governments like Spain and those in Latin America had to nationalize pension schemes and investment banks that were going under. Governments were also forced to act as Guarantors for loans borrowed between banks for them to be motivated to lend from each other. The Central banks all over the world were also forced to reduce their interest rates. It also caused many employees to lose their jobs for most companies were cutting down on their costs to be able to operate. Asia was mainly hit by the drastic reduction of product demand from other continents, hence a big loss on the export income (Kilonzo, 12). China in particular was forced to come up with a fiscal policy whose aim was to concentrate on the advancement of infrastructure for the coming two years.

In September 2008, Nigeria's central bank was forced to reduce its interest rate, the country's money reserve and its liquidity rate. They had to adjust their policies to provide an environment that would allow the economy to be more liquid. Kenya in particular had to come up with a taskforce whose duty was to advise the government on measures to take to protect the economy from the effects of the financial crisis. Also it forced the International Monetary fund to commit itself in giving emergency loans to hard hit countries (World Bank, pp. 352). Effects of the financial crisis on the global job market
The most affected workforce was that in the financial service

sector. The sector has a huge number of both moderate and high-skilled workers together with technical employees who have experience in areas of finance.

Most of these employees had to lose their jobs. This was so because of the declarations to bankruptcy by most firms, selling of some of the firms and even mergers and acquisition which were undertaken to be able to achieve economies of scale and improve their competition both in the regional and global markets through increased productivity (Schlossberg, pp. 119). Some employees lost their jobs at the prime of their age which led to great psychological trauma which saw some of them even commit suicide. Those employees who lost their jobs in developing countries inhibited the 2030 vision which was to see a reduction in the poverty rate. This was so because they were forced to move from their previous places of residence to much cheaper slum areas.

The closing of big companies like G-TV in Kenya made hundreds of employees to lose their source of livelihood (Schlossberg, pp. 119). Measures to take in preventing of the re-occurrence of the global financial crisis. Most corporate around the world needs to focus on good governance for the market to develop confidence in them again. This will boost foreign direct investments in developing countries and increased capital flows from the private sector which translates to greater investments. Good governance of the corporate can only be managed if the top management is accountable, the corporate structures are transparent, and there is a time to time

valuation of the financial models and the existence of transparent financial activities.

Also, the stakeholders of both developed and developing economies should have inclusive world governance which will help serve their literacy needs. The IMF should step up its game and take the role of worldwide surveillance by guarding the world financial institutions giving warnings where necessary. Through that, all countries can use the information presented to it to act very fast to protect themselves. This though requires that all countries in the globe cooperate and coordinate on policies. The legislature of various countries should be reviewed like what is happening in America now where more regulations are being given to assets backed with securities (Kilonzo, 9). The investors also need to be educated more as it helps them know measures to undertake for their own protection. This together with an increase in public awareness will enable the public to be aware of existing products and invest wisely. In addition, there should be free flow of information among the regulators of the financial sectors.

The financial providers should improve its risk management portfolio by conducting risk profiling from time to time (Veseth, pp 98). ConclusionThe global financial crisis though started in the US; it had major impact on the world than ever before. It took the world by storm leading to the closure of financial institution, lack of investor confidence in existing investments, the stock market becoming bearish, Government acting fast to bailout companies and even nationalizing some banks and mortgages to prevent their total collapse. The causes are many ranging from weak legislation on

mortgages and loans backed with securities, Lack of strict measures to be undertaken on firms and banks that default on their loans also caused the financial turmoil. This clearly calls for the fast transformation of the mainly financial sector to avoid reoccurrence of such problems again. The governments, private sector, central banks and the International Monetary Fund have a key role to play to ensure that most governments are back on their feet and running normally. They say experience is the best teacher so we hope the superpower countries have borrowed a leaf from this crisis and they will be in a better position to guard the rest of the world from any other crisis of the sort. Works Cited Kilonzo, Stella.

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