

Causes for the 2007-08 financial crisis

[Linguistics](#), [English](#)



Causes of the 2007-08 Financial Crisis Major: Economics Research question:
What are the fundamental factors which led to the 2007-2008 financial crises?

Aim: The research aims to investigate and determine the economic factors that necessitated the 2007- 2008 financial crisis

Type of focus: Factors and their effects

Introduction elements

Hook 1: The 2007-2008 mortgage crises that was christened the Subprime still lingers in the minds of many. The financial ramifications that followed thereafter were felt by many.

Hook 2: Speculation can drive up the property market prices and inadvertently lead to a crisis like the 2007-2008 recession.

Connecting information to thesis

Point 1: The accumulated debt in the mortgage sector is among the fundamental factors that contributed to the crisis. The price of property shot up yet the real values of the property did not change.

Point 2: Speculation on the size and lucrativeness of the real estate industry in the large economies enticed many investors most of whom were from the commercial banks a feature that resulted in the reduction of the economies' liquidity.

Point 3: The enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980 enabled financial institutions to influence the nature of monetary policies thus making the economy susceptible to non-factual policies, as was the case in 2006.

Point 4: Another equally fundamental cause of the crisis was the

enlargement of the Federal Reserve policy (Starkman, 2014).

Thesis Statement: There are several fundamental factors which led to the 2007-2008 financial crisis. The property market was a major contribution to the financial crisis. The collapse in prices of mortgaged houses put homebuyers in debts as they had speculatively spent so much money on overvalued property. The financial crisis arose from weak financial policies, which permitted banks among other financial institution make precarious investments as the outline portrays.

Body paragraphs

I. The mortgage crisis that led to the 2007 economic crisis

A. The concept of the Subprime mortgage led to the collapse of property market (Chapra, 2009).

a. Response: The real estate industry is among the major industries in the developed countries.

b. Response: The financial crunch affected investment in the real estate's industry first in the United States before the effects spiraled to other major global economies thus reducing the volume of activities at major stock markets thus culminating in the crisis.

B. This made the economy precarious as the banks began competing for investment opportunities with the hopes of maximizing their profits (Torres, 2010).

a. Response: Investors lost confidence in the market.

b. Response: The trickle down effects of the meltdown was felt far and wide.

II. Speculation on the size and lucrativeness of the real estate industry

A. The regulation of the industry should be in fiscal policies (Justine, 2014). s

a. Response: With intense speculation on the size and lucrativeness of the industry, numerous investors including financial institutions increased to invest and compete for the market (Starkman, 2014).

b. Both commercial and investment banks thus competed for the market. They introduced precarious policies that permitted the banks to invest extensively in the industry without cushioning themselves from the unpredictable nature of the market.

III. The absence of what is known as market discipline which was as per the then set financial system (Chapra, 2009).

A. Regulation of the market should be globally monitored

a. The Federal Reserve authority has a role in regulating monetary policies through regulations such as the money control act (Guina, 2014).

b. Response: Enlargement of the Federal Reserve policy

References

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Justine, D. (11/04/2014). Global Financial Crisis – What caused it and how the world responded <http://www.canstar.com.au/home-loans/global-financial-crisis/>

Starkman, D. (2014). The Big lie that haunts the post crash economy. New York: The newrepublic.

Torres, R. (2010). Responding to the global crisis: Achievements and pending issues. Geneva: ILO.