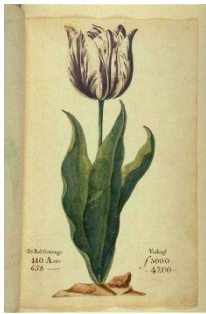


The Financial Crisis 2007

Dorian Ford Prince, May 2010



Capitalism = 'boom' and 'bust' some recent crises:

First paper banknote issued by John Law 1714



➤ Tulip mania - Netherlands 1637

➤ Wall Street Crash – 1929, Great Depression 1930-45

➤ Savings and Loan Scandal, USA, 1986-96, US\$ 125 bn bailout
ベイルアウト

➤ Japanese bank crash - 1995

➤ Asian financial crisis ("IMF crisis") – Thailand, Indonesia,
South Korea, Philippines, 1997-8

➤ Dot-com bubble 1995-2001



Financial Crisis 2007

3

- **what caused the crisis?**
- **What are the short, medium and long term effects**
- **Who is to blame?**
- **How long it will last?**
- **Solutions?**
- **When the next crisis will happen???**

Possible causes

1. Financial deregulation
2. New, complex, innovative financial products
3. US housing boom, sub-prime mortgages
4. Globalisation and the new US-Asia economic model
5. Ratings Agencies

-- Financial Deregulation 規 制緩和

In 1999, President Clinton abolishes Glass-Steagall Act of 1933, separating commercial banking from investment banking

In 2004, Securities and Exchange Commission relaxes restrictions on amount of debt which investment banks are allowed to hold

Other:

-New Financial Products

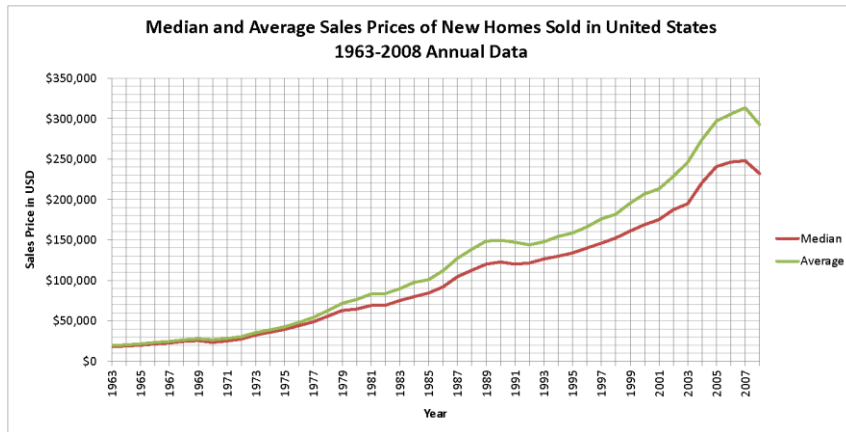
- ▶ Derivatives - insurance policy guaranteeing future value of a commodity, equity or loan デリバティブ
- ▶ Mortgage backed securities -
- ▶ Credit default - CDC's: In 2007, CDS worldwide were worth US\$ 58 trillion while world GDP was only US\$ 54.3 trillion



**“Financial
weapons of mass
destruction”
Warren Buffett**

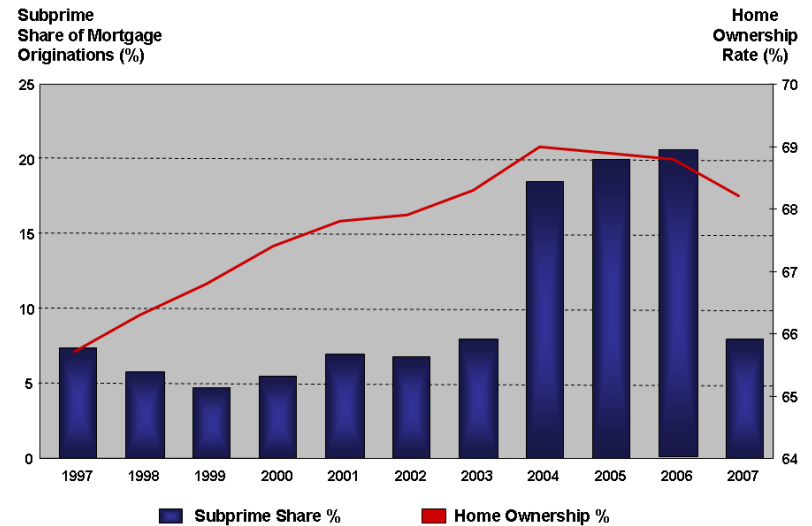
US housing boom

Average US Home prices



Growth in subprime loans

U.S. Subprime Lending Expanded Significantly 2004-2006



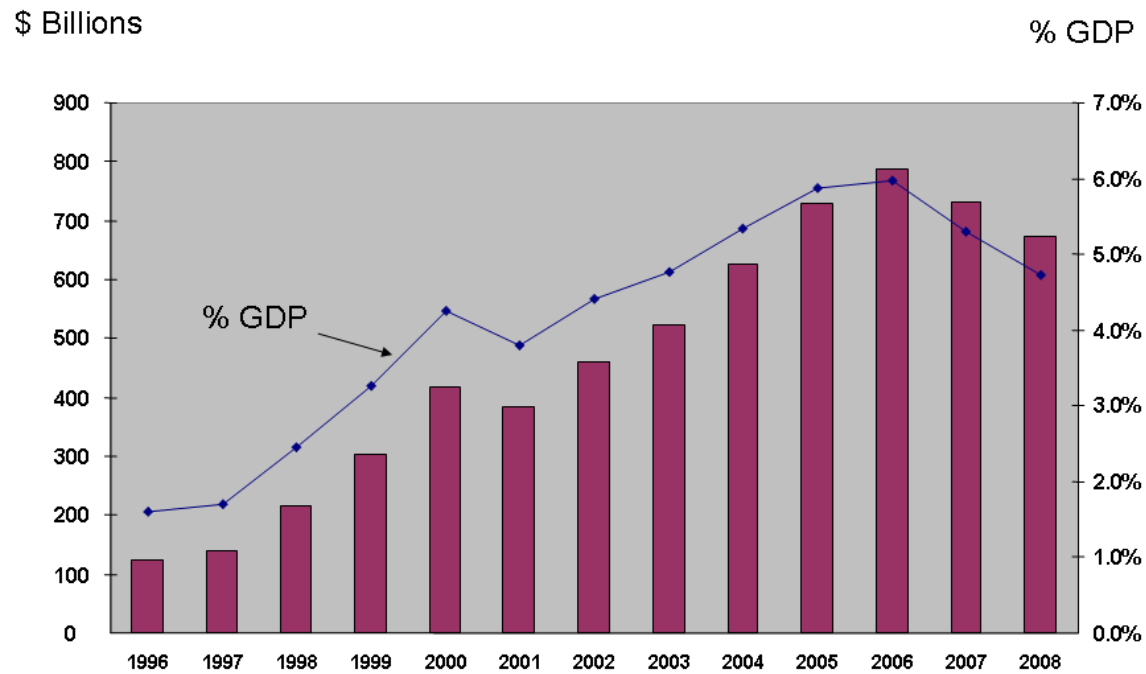
Sources: U.S. Census Bureau; Harvard University- State of the Nation's Housing Report 2008

US Housing Crash

- ▶ Interest rates increase suddenly from 1% to 6% so by August 2008, 15% of all mortgages had defaulted
- ▶ 6 million Americans lost their homes
- ▶ House prices fell by 30-40% in 2008, MBS and CDS shown to be worthless pieces of paper

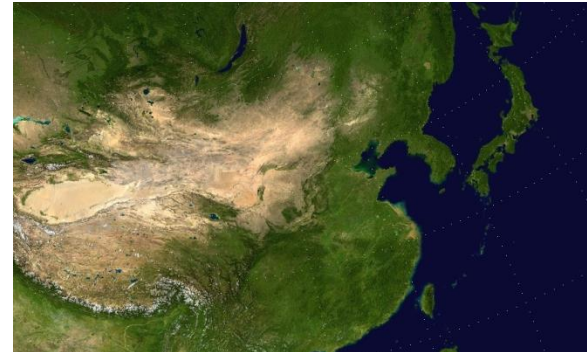
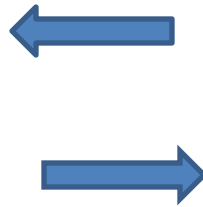
— Globalisation

U.S. Current Account or Trade Deficit: Dollars and % GDP



Source Data: U.S. Bureau of Economic Analysis (BEA)

New US-Asia Economic Model



US trade deficit (2008):

China \$270 bn

Japan \$70 bn

Stocks of US Treasury Bonds:

China \$ 810 bn

Japan \$1106 bn

Ratings agencies

- ▶ Only 3 Ratings Agencies (Moody's, Fitch, S&P)
- ▶ These analysts were always saying that risky investments were safe.

EFFECTS!

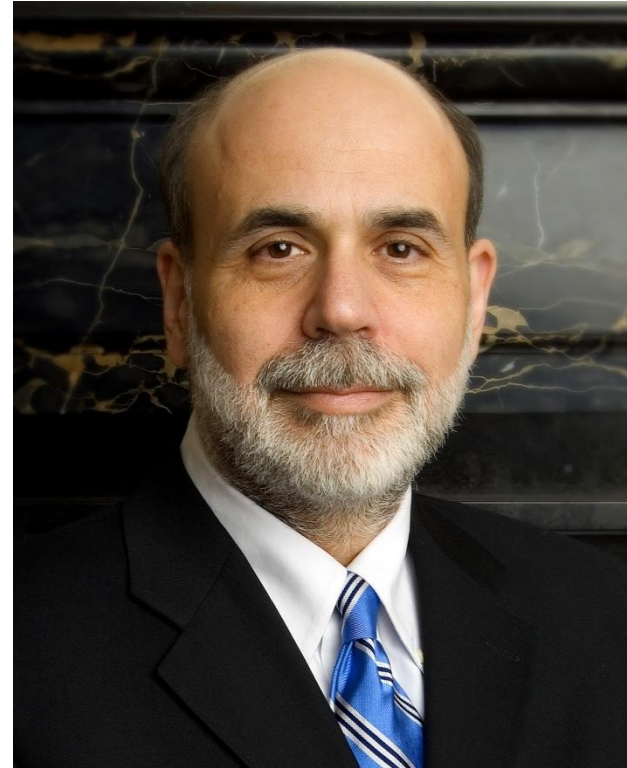
- Unemployment reaches 10% in USA, 15% in UK, 21% in Spain, 30% Greece
- Iceland collapses. Ireland collapses.
- World trade falls by 40% in 2008 – so far no real recovery

How long will the Financial Crisis last?

“Technically, the recession is over but the economic recovery will appear very weak in 2010”,
Bernanke, September 2009

Stock markets reach historic
highs in April 2010

Domestic growth high in some
Asian markets



Ben Bernanke
US Fed Chairman