The American mortgage crisis implications on the international economics evolutions

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Abstract: Shock waves that produce large cracks deepen existing political, economic and social, and sometimes a new order replaces the old. In 2010, states across the world over blast, which invariably will lead to changing the current world order. Last twenty years have seen major changes in international economic context, the Soviet Union collapsed and centralized economies in Eastern Europe, reforms in China and India, export-based growth strategies in East Asia, all leading to the creation of a world economy market and also bringing 4 to 5 billion people.

Keywords: mortgage crisis, financial crisis, stock market, bank loans, international trade

Jel Code: E44, E63, F21, G15

Structure: This paper is structured into three major chapters. The first chapter presents the current economic situation from the present economic phenomena but also to what happened in the '30s. The second chapter presents early American mortgage crisis and its implications on the global economy. The third chapter reviews the effects on financial markets and the impact on international trade for the fourth chapter to present the conclusions of the U.S. mortgage crisis impact on international economic development.

1. Introduction

The world economy currently experiencing the largest decline in the postwar period, dominated by a financial crisis that swept in a record time around the world. Many developed economies have entered into recession, the rest of slowing economies, and significant growth. International trade and global monetary and financial flows show a significant contraction, while unemployment has increased considerably[1].

Nature of the current crisis events can be reported in a precedent - in particular, the current situation of financial crisis combines the most advanced economies in the world with a time of global economic contraction. But no financial crises (which occur during episodes of major imbalances and financial institutions functioning of financial markets), or periods of global economic contraction is not a novelty. Therefore, the past can be a useful way of understanding this.

Shock waves that produce large cracks deepen existing political, economic and social, and sometimes a new order replaces the old. In 2010, states across the world over blast, which

[1] http://news.bbc.co.uk/2/hi/business/7644238.stm

invariably will lead to changing the current world order. Last twenty years have seen major changes in international economic context, the Soviet Union collapsed and centralized economies in Eastern Europe, reforms in China and India, export-based growth strategies in East Asia, all leading to the creation of a world economy market and also bringing 4 to 5 billion persons[2].

On the one hand, these major changes have resulted in tremendous opportunities for development, but on the other hand, have destabilized the international economic system built mid-twentieth century, subsequent recalls is just temporary. Thus, one can already see changes in global economic hierarchy and international cooperation.

Estimates of the economic crisis end leverage will be followed by China and India and other emerging economies, while the United States, the epicenter, probably lose their status as world power. Basically, the world economy is falling to the state in two hundred years ago, before the industrial revolution, but with one significant difference - North America.

Thought the Bretton Woods monetary system in 1973 gave the floating exchange rates, U.S. dollar, giving the main reserve currency status of the world. But so far despite the sustainability of the dollar, which expanded during the crisis, the future will occur and other options. Bretton Woods's system of taxation was devised by 44 states, a time when global economic power was concentrated in a few nations. Wave of decolonization was just beginning, and the few developing countries were seen as mere objects and not subjects of history. But that time is long gone. A new reality of economic policy requires a separate system.

Thus in this new context, leaving the crisis would mean the chance to restructure the global institutions and policies, the chance to create a new global economic system suitable XXI century, it's a "responsible globalization", which would encourage fiscal stability and an overall increase balanced. All this would result in increasing the benefits of trade and markets, investment, competition, innovation, growth, and free information.

In recent decades, recessions have declined both in frequency and in intensity, while the economic expansion periods were extended. However, recessions associated with financial crises have become more severe and more extended than those accompanied by other disturbances[3]. Recovery from this recession is therefore much slower and is also associated with lower domestic demand and acute shortage of liquidity.

Recessions products simultaneously in multiple states are, in turn, considered to be deeper and more extended than unilateral. In this case, the return occurred extremely difficult, international trade plays a smaller role than in recessions unsynchronized. Recession currently facing world states can be characterized as highly synchronized and coupled with severe financial crisis, a rare combination at least for the postwar period. Therefore, exit from the crisis will be extremely difficult, thus justifying the historical parallels between now and the Great Depression of the 1930s, by far the most lengthy and deep recession, known by most developed countries.

Monetary policies appear to have played an important role in countering recessions and boost economic recovery. Their effectiveness, however, is significantly reduced immediately after the conclusion of a financial crisis. Regarding the recessions associated with financial crises, a role is held and the tax incentives that accelerate economic recovery. But nevertheless, the impact of fiscal policy on economic recovery is significantly reduced if the economies recorded high levels of debt.

Consequently, counter current recession severity requires aggressive monetary policy and fiscal measures to support also short-term aggregate demand without damaging the stability of medium-term debt. But even in such measures, the economic recovery depends on the unique balancing financial sector, whereas, according to one of the most important lessons of the Great Depression, restore confidence in the financial sector is key to recovery.

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[2] World Bank Institute, *Growing Out of Crisis,* ISSN 1020-797X © 2009, p. 3

[3] http://www.ncsconline.org/WC/Publications/CS_BudPro_Recession_Lessons.pdf

2. The American mortgage crisis - beginning of the end

Phenomenon still uncertain for some the American mortgage crisis, credit crisis sub-prime crisis (an expression that characterize high-risk operations) summon up the severe consequences that irrationality can cause a national financial system fragile, also propagated consequences globally.

Appropriations sub-prime "means those loans to insolvent entities with low capacity to pay. Interest rates charged on sub-prime market are therefore higher, due to significant risk for granting loans to such persons[4]. Despite the risk, the U.S. sub-prime market has evolved dramatically - in 1995, only 5% of housing loans were rated sub-prime, but 10 years later, in the year 2005, the sub-prime loans reach 20 %. Mortgage crisis began rediscovered value of the sub-prime loans amounting to over $ 1300 billion, half of them in just one year before[5].

Grounds extraordinary expansion of sub-prime loans are not hard to spot. After 2000, with recession in the U.S. economy falling, the Federal Reserve cut U.S. interest rates until, in June 2003, they reached 1.5%, the lowest level after 1958[6]. Consequently, increased availability of money is required for markets to be able to absorb. Not surprisingly, the most appropriate market for new funds available volume capture was the housing market as home prices show a further increase after a slight period of stagnation[7].

Sensing a potential housing market in light of new sources of funding, institutions that offer mortgage credit instruments created tempting as loans with variable interest rates to attract more customers. Variable interest loan requires an initial period of two years during which the interest rate applied is very small, and then grow substantially every six months. Therefore, such a loan could reach average values between 20 and 40% interest, with some default position holder.

In factual, suppress crisis involving two primary categories of people - homeowners and investors, the first representing loans and other funding sources. In turn, loans are housing and funding sources are large corporations such as insurance companies or investment funds. These two categories are interconnected through the financial system, ie, through banks, which in turn is closely related to homeowners.

Earlier this vicious circle is marked by continuing efforts to enhance investors existing funds. Typically, to achieve this goal, addressed investors the Federal Reserve System, where it buys government securities, since they are considered the safest investment possible. But in terms of interest rates that are between 1 and 1.5%, investors refuse to invest, while Wall Street banks refer fabulous opportunity to borrow sums of money for an interest rate of just 1%. Add to this surplus money from Japan, China and Middle East, resulting in an abundance of cheap credit, leading banks to borrow ever more to be oversized and businesses.

What is this dimensioning - for a standard transaction between two traders, one of them buys a property with $ 10,000, will sell to other agents with $ 11,000 and make a profit of $ 1,000. But if you use the same option trader bank loan of $ 990,000, having such a liquidity of $ 1 million, and can buy 100 of goods of the kind mentioned above, you can sell the second trader instead the amount of $ 1.1 million, after paying the $ 990,000 owed and the interest on the $ 10,000, it ultimately it remains a profit of $ 90,000, much higher than for standard operation, only $ 100.

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[4] Shiller, Robert J., *The subprime solution: how today's global financial crisis happened and what to do about it*, Princeton University Press, 2008, p. 16

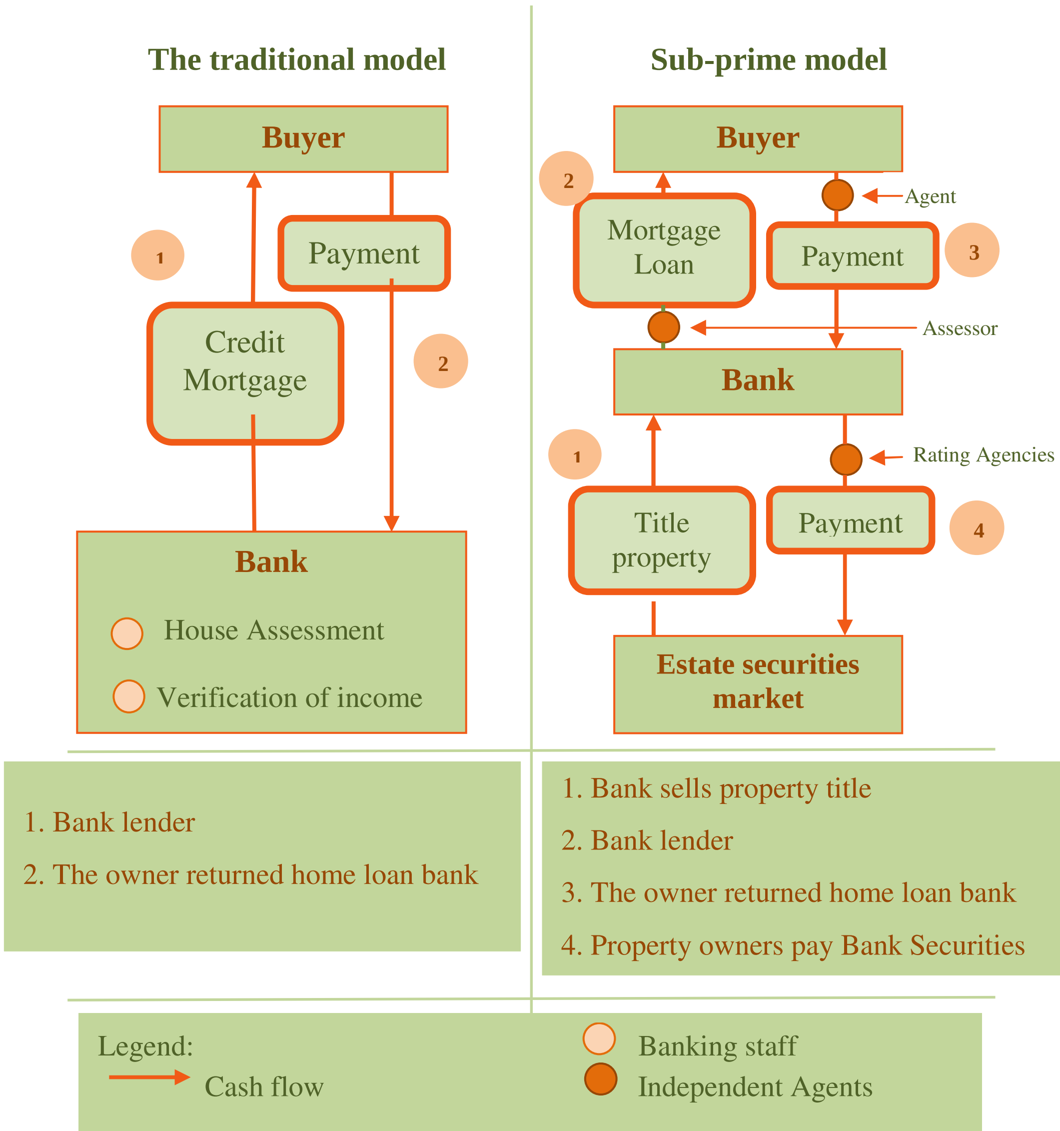
[5] Nera Economic Consulting , *At a glance- The Chilling effects of the Subprime crisis*, www.nera.com/image/AAG_ Subprime_1662_final.pdf

[6] PBS, *Federal Reserve Rate Cut*, http://www.pbs.org/newshour/bb/economy/jan-june03/fed_06-25.html

[7] http://useconomy.about.com/od/grossdomesticproduct/a/cause_recession.htm

So banks lend fabulous amounts which result in fabulous profits, get rich quick, and then pay back the amounts due. Investors noted that the immense potential of winning this and wish it leads in turn to participate. Banks quickly found an ingenious solution - they may mediate the relationship between investors and home owners through mortgage.

The system works as follows - when a family wants to buy a house, it saves the value of a deposit and get in touch with an estate agent, addressing a funding institution, the latter will provide the funds needed to purchase the family home. Following the transaction brokerage, real estate agent gets a commission negligible. The family bought a house and its members are in possession of them, the investment is considered profitable only because the houses are among the goods whose prices rise steadily.



Source: BBC News

Figure no 1. Standard graphical representation of the real estate market and the sub-prime

Investment bankers and offer the opportunity notify the company which financed the purchase of housing to sell the mortgage in exchange for a generous sum of money. Society accepts financing, choosing a significant profit[8]. Investment banks then lend millions of dollars, which buys thousands of mortgages. The bank shall provide a monthly income from mortgages on each home owner is required to pay. Then divide the total mortgage banks that they hold in three categories - secure, neutral, risky, and will gather them into what are called collateralised liabilities (CIU). Collateralised payment obligations are, in turn, divided into safe, neutral and risky.

First class, secure mortgages, receives the highest allocation money, the system operating in cascade, so that the two remaining categories receive monetary allocations lower row[9]. Source is the money homeowners pay their mortgages. Therefore, if some of them fail to pay their mortgages, will allocate less money for high-risk mortgages, a situation which, on the one hand, further increases the risk of the already risky mortgages, and on the other improve safety part of those already considered safe.

To offset the pronounced degree of risk, risky mortgages assigned to them more interest and secure the lower interest, but large enough not to diminish profitability. To further increase the safety of secure mortgages, banks in return for providing them money, called credit default swaps (derivatives contract in which the comparator makes periodic payments to the seller and in return, receives a certain amount if the loan is not repaid. CDS contracts can be likened to insurance, because the buyer pays a risk premium and receives a payment if an event occurs[10].) American banks make all this effort for the Federal Agency for Credit Monitoring to provide secure mortgages rated AAA (highest level of investment is safe). Mortgages get rated BBB neutral, while risky mortgages are ignored.

Thanks AAA rating, banks can sell mortgages to investors who are seeking safe investments safe and profitable. BBB closed mortgages are sold to other banks and those with high-risk hedge funds (hedge funds) and other private equity funds. Thus, investment banks earn fabulous amounts, after which they repay loans to buy mortgages.

Investors have finally found a profitable way to invest their money better than government securities, interest bearers reduced by only 1%. The operation is considered so profitable that they want and more collateralised liabilities, therefore first investment banks trying to buy more mortgages and therefore contact the financial institutions who are subject to estate agents. But realtors do not manage to find potential customers. All persons to whom they could safely give mortgages already have a mortgage.

Apparent saturation of the market but does not stop the spiral, mortgage financing companies making two important points:

- whenever one of his clients are in default, he loses his house;
- value of homes is constantly increasing.

Since those companies have some money from the payments until the default guest, they found that grant funds may increase risk; we come as proof of a stable or pay a deposit. The avar and thoughtless manner enrichment would lead to sub-prime crisis started and with it the global economic crisis[11].

Thus, the persons responsible, able to bear the costs arising from mortgage loans, which became in this way secure funding institutions (Prime Mortgages), was quickly filled by people less responsible, leading to very high credit grade risk (sub-prime Mortgages[12]).

Their appearance marks the beginning of the end. As in the original, real estate agent mediates the relationship between family and company financing, and the family bought a house, which normally would not have a permit. The company that sells mortgages granted ownership of banks, which then turns into collateralized liabilities; they will sell themselves to

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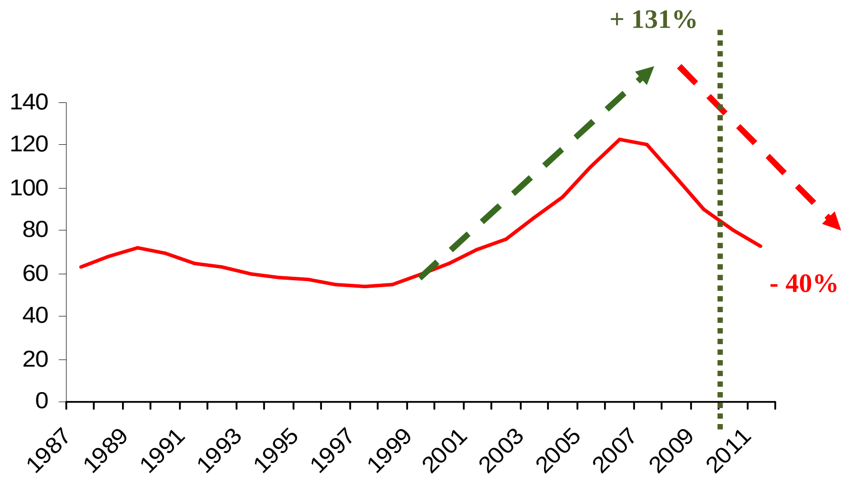
[8] http://www.tradingmarkets.com/news/stock-alert/bfnb_bad-loans-recession-tripped-up-myrtle-beach-bank-how-beach-first-failed-and-its-future-as-bnc-919243.html
[9] http://current.com/116k64c
[10] http://www.conso.ro/glosar-cuvinte/a/1/29/332/Credit-Default-Swap-%28CDS%29.html
[11] http://www.acton.org/commentary/425_greed_hurts.php
[12] http://useconomy.about.com/od/economicindicators/tp/Subprime-Mortgage-Primer.htm

investors, other banks and hedge funds. Operation without profit to each participant and, therefore, is considered a brilliant financial engineering. None of the participants not the question of a possible collapse, since mortgage once sold, the risk is entirely transmitted next buyer.

As expected, new home owners in default enter quickly. Consequently, a fraction of monthly source of income of the owners of mortgages, banks, turns back into a house. The situation is not alarming, since the house is quickly removed from sale. But increasingly more and more people turn out to not be able to pay mortgages purchased homes, therefore the number of houses for sale on the market increase sharply, supply exceeds demand and house prices begin to fall gradually. In fact, house price falls.



Source: S&P/Case Shiller

Figure no 2. U.S. real estate market trends during 1987-2011 *

Raises house price collapse, however, a problem that owners still pay their rates in May due to banks. As most houses in the neighborhood where they live are for sale, values their own houses fall, so they question why should pay banks a mortgage worth $ 300,000, when houses in which live no longer worth more than $ 90,000 . They decide not to pay the mortgage, though still longer afford and abandoned house. Phenomenon develops is developing to the national and house price falls further. In this case, investment banks are seeing the owners of homes no longer worth anything and contact investors trying to sell the remaining payment obligations collateralized, but investors refuse.

Banks seek desperate to sell mortgages held, but to no avail, then panic as to return hundreds or even thousands of billions of dollars, and are themselves now in default.

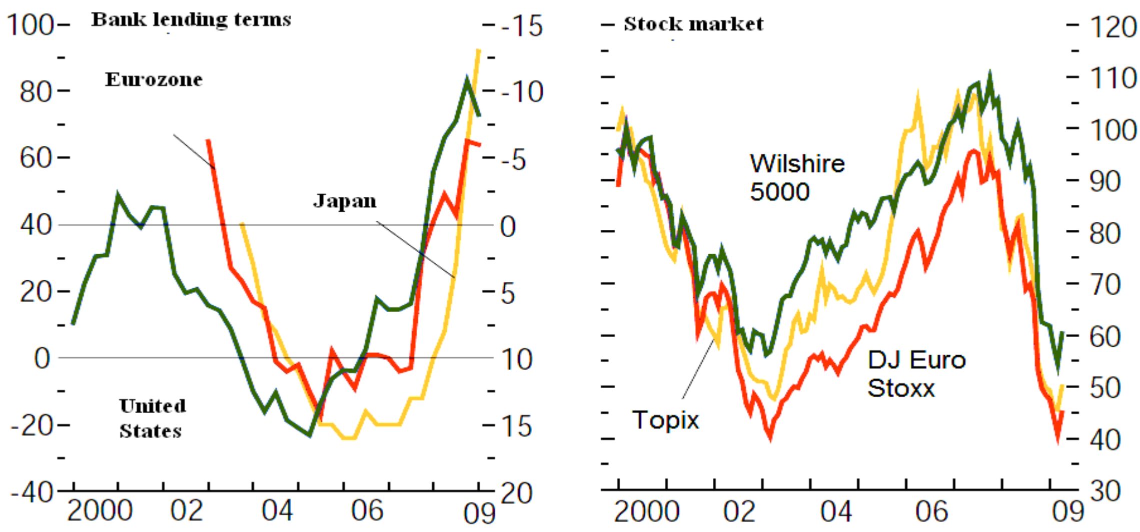
But banks are not alone in this situation. Investors have already bought thousands of these time bombs. Financing companies trying to sell other mortgage banks, which refused, and real estate agents remain subject suddenly without work and without work. The whole tax system freezes, and the inevitable happens. Bomb explodes, resulting in a huge wave of bankruptcies. Evil does not stop there. Homeowners are the investors that their savings have no value, and the whole economy goes on a rampage.

3. Worsening global economic situation

Immediately after the outbreak of the sub-prime crisis in the United States in August of 2007, the world economy has been severely shaken, but still had negative effects really make their presence felt. Economic activity was reduced in intensity because of tightening credit conditions, while the end of the first half of 2008 mark economies into a recession stage of moderate recession but still disrupt the relatively robust growth rates in emerging economies and developing[13].

However, despite the efforts of authorities to support the market capitalization and liquidity, wave's crisis continued to spread, while concern printed by sudden devaluation of the property raised the issue of solvency increasingly important financial institutions and funding national.

Deteriorating economic situation of the United States and followed its course with the second outbreak of the financial crisis in September of 2008[14], followed by the bankruptcy of a large American investment group, Lehman Brothers, the rescue efforts of the largest companies American Insurance, American Insurance Group - AIG, and interventions to support a number of other systemic institutions in the United States but also in Europe (like Bear Stearns[15]).



Source: IMF (poll percentage left, right = 100 March 200)*

Figure no 3. The effects of the crisis on the stock market and bank lending *

All this has led to desperate attempts to escape quickly from high-risk investments and to buy government bonds, a situation with a direct impact on most government reserves, having to produce an evaporation of funding sources banks resulting more chaotic in an attempt to pay the debt that would extend the cascade on the global financial system.

Assets were sold at ridiculous prices, credit lines were assigned to hedge against modest amounts, and intermediaries in the banking system began to turn to bankruptcy. Value of banking assets continue to decline accelerated, and international trade flows, financial and capital are strongly perturbed, while banks are tightening ever more credit conditions and stock markets continue their free fall.

Emerging markets that had until recently housed the financial chaos because of limited exposure to U.S. sub-prime market are now fully hit. Securities are undermined, monetary flows stopped and exchange markets are becoming more difficult to pressure. In addition to generalized increase in risk for any financial transactions, cash flows are hampered by a number of nuisances: the massive losses suffered by banks (particularly those in Western

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13 http://mortgagesloans.suite101.com/article.cfm/fallout_of_the_sub_prime_crisis

14 Standard & Poor's, *Broader Lessons From Lehman Brothers' Bankruptcy*, 2008, p. 2

15 Guillén, Mauro, *The Global Economic & Financial Crisis: A Timeline*, The Lauder Institute, University of Pennsylvania, 2009, p.9

Europe) and hedge funds wish to transfer funds under the umbrella provided The accumulation of mature markets, not least concerns about national economic outlook, particularly in economies that relied mainly on external funding (for India or South Africa) [16].

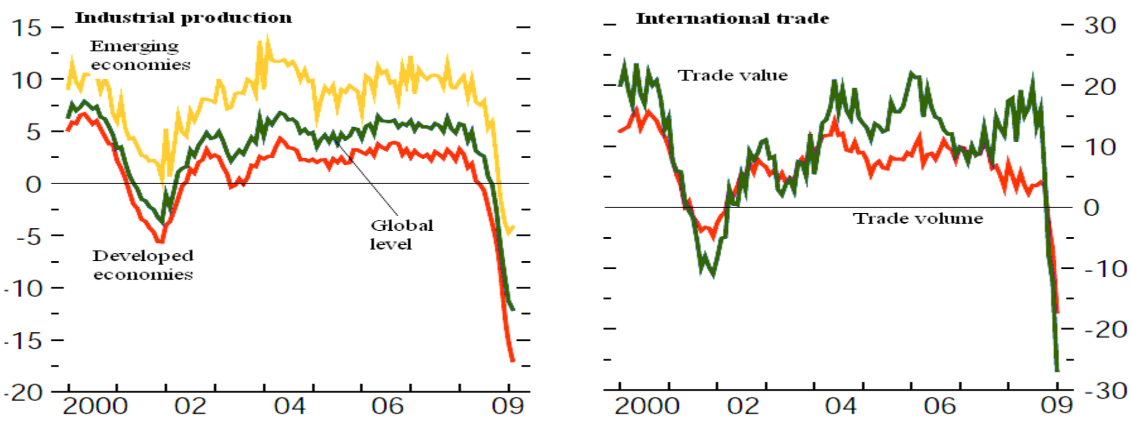
Although the global economic collapse has been avoided in the last minute consecutive financial disasters have seriously affected the global economy in several ways. Credit crisis has damaged the credibility of the main companies that until recently jugglers compete in investment. Sudden fall of stock markets and real estate markets recorded depreciation led to huge losses. Moreover, because the excesses and failures occurred in the very core banking system, the effects were rapidly spread to all sectors and countries of the world economy. Gravity of the situation was exacerbated by the collapse of economic activity and consumer confidence in the fear caused by gloomy economic forecasts and the constant uncertainty induced delay the emergence of coherent recovery.

All these interventions have induced great increase the risk for financial transactions, banks are seeing massive exercise the undervaluation of their assets, while financial solvency of big names began to be questioned, request cash rate in November reached maximum and volatility in the markets explode again.

Rapidly deteriorating economic environment continued to stress financial stress in a corrosive spiral that has undermined efforts to remedy the situation. Therefore, the impact of the crisis was felt quickly and widely. In the last quarter of 2008, industrial production and trade in goods fell, the situation is continuing in 2009, both in developed economies and for emerging as investment purchases of products and durables, such as cars or electronics, have been hit the most of the credit crisis and instability that has generated it.

Latest analysis shows however that with the passage of 2009, economic contraction intensity began to decline. Confidence in the economic environment shows also a slight improvement and it seems that stabilizes the volume of transactions of goods, from decreasing the price level and the anticipation of improved macroeconomic policies of the current situation. However, unemployment continues to rise, especially in the United States where, in May 2010, reached 9.8%[17].

Overall, the estimated contraction in global GDP reached in 2008 to 6.25% worrying level, but according to IMF estimates, 2010 is expected to mark a positive trend of 3.9% to continue its growth until to 4.3% in 2011[18].



Source: Netherlands Bureau for Economic Policy Analysis for CPB trade volume index

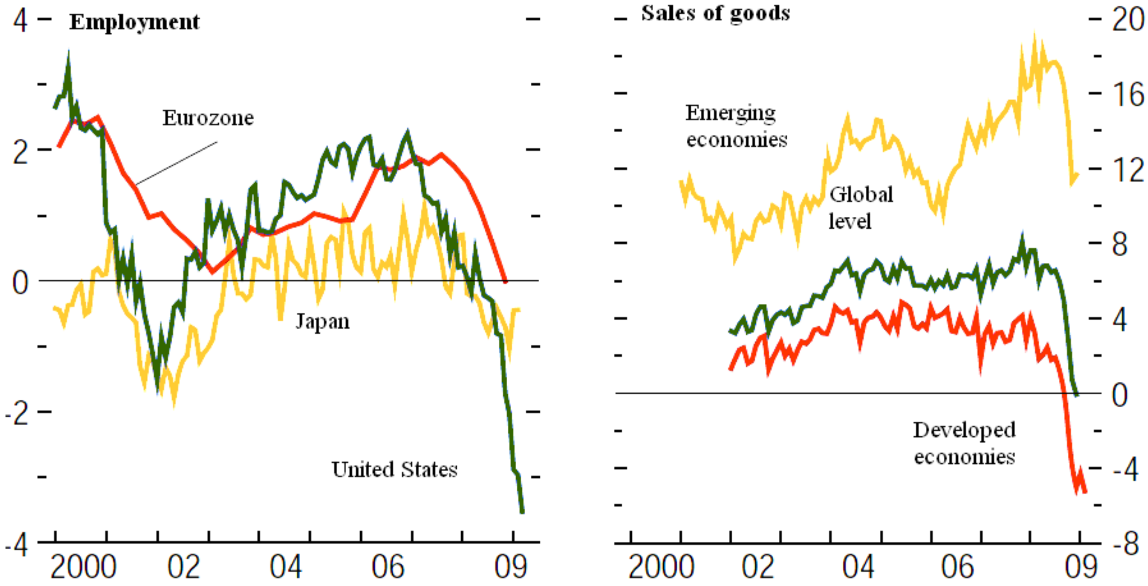
Figure no 4. The effects of the crisis on industrial production and international trade

[16] International Monetary Fund, Fiscal *Implications of the Global Economic and Financial Crisis*, 2009, p. 12

[17] Bureau of Labor Statistics – US Department of Labor, The Unemployment Situation – May 2010

[18] http://www.centreforaviation.com/news/2010/01/27/imf-revises-up-global-gdp-forecast-to-39-for-2010-43-in-2011/page1

(Percent change)



Source: Netherlands Bureau for Economic Policy Analysis for CPB trade volume index

Figure no 5. The effects of the crisis on employment and sales of goods
(Percent change)

All world economies were badly affected, although the shock wave evolved in patchy, some felt it much stronger effects than others. For developed economies, 2008 marked an unprecedented decline of 7.5%[19], they then entered into deep recession. While the U.S. economy has been hit by the steady decline in the real estate market and increasing financial stress, Western Europe and Asia were hit in full collapse of international trade and their own financial problems and housing markets change.

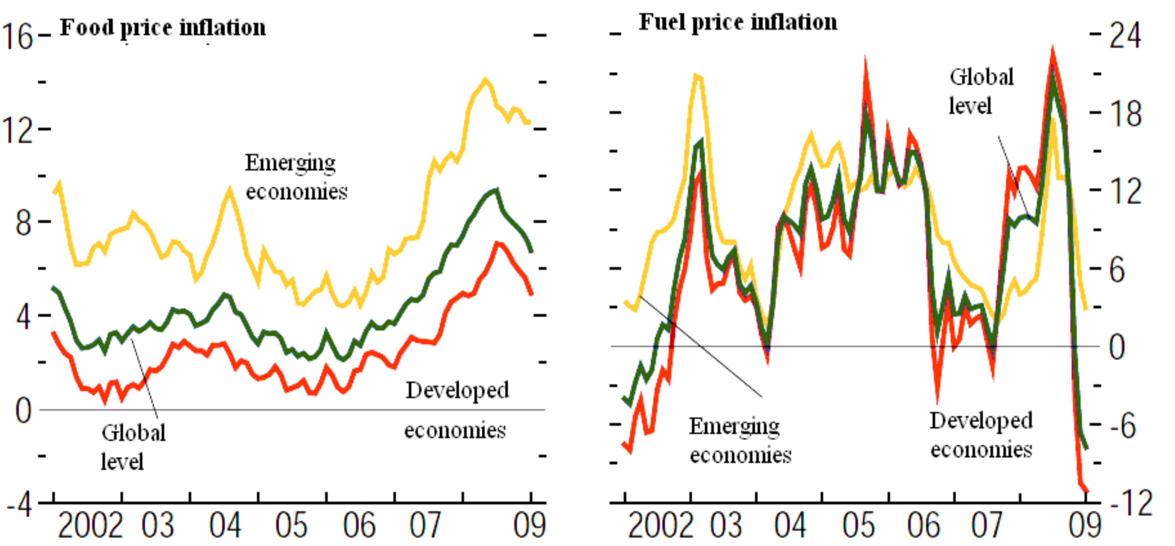
In turn, these emerging economies have suffered from the crisis, registering a 4% contraction. Negative effects were induced both through commercial channels and the tax. East Asian states work directly dependent on the production and export was drastically reduced, although negative effects on China and India have been somewhat reduced due to low participation of exports in gross domestic product and the elasticity of demand due to domestic markets. Emerging Europe and the Commonwealth Independent States were also heavily hit because of dependence on external financing and export of goods. Countries in Latin America, Africa or the Middle East have suffered themselves from the price collapse, worsening financial situation and reduced demand for exports[20].

Relative activity while freezing world, inflationary pressures declined rapidly. Commodity prices declined significantly, being directly influenced by emerging economies that generate failures until recently most of the world supply. Meanwhile, slowing economic activity has frozen wages and profits eliminated. Consequently, their primary inflation economy has fallen below 1% in February of 2009, although core inflation has remained within 1.5% - 2%, except Japan. Emerging economies have been, in turn, significant decreases in inflation, although in some cases the effect was mitigated by derives exchange rates.

Policies to mitigate the crisis, although implemented quickly, widely and often unorthodox, were too narrowly designed to control spiraling chaos of crisis. After the collapse of Lehman Brothers group, the majority representing mature markets have decided not to allow a bankruptcy or other major financial institutions. Therefore, a number of large banking

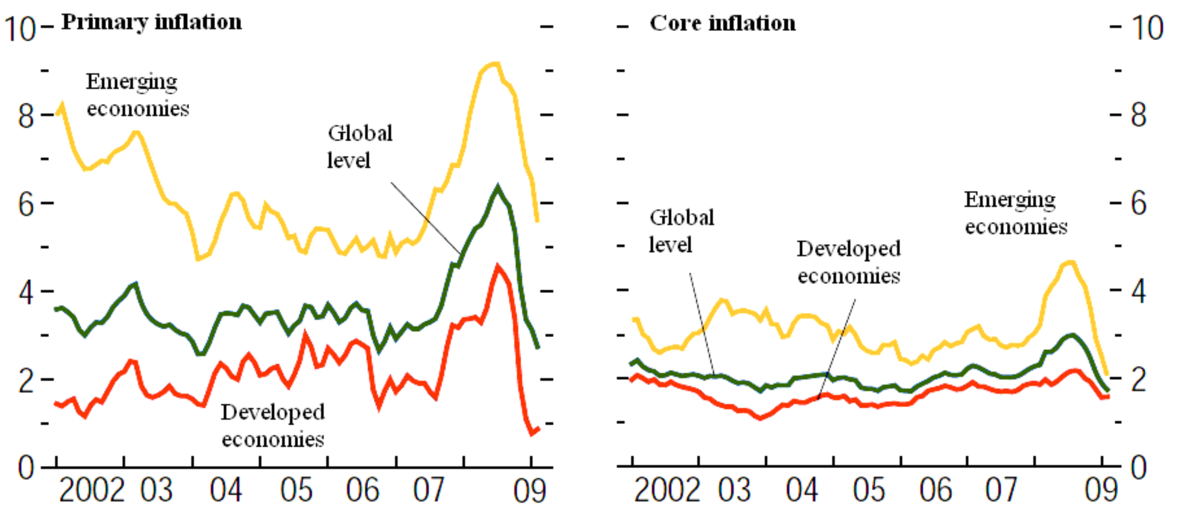
[19] Cooper, George, *The Origin of Financial Crises*, Harriman House, 2008, p. 16
[20] International Monetary Fund, World Economic Outlook – Crisis And Recovery - April 2009, p. 29

corporations in the United States and Europe have received government support in the form of capital inflows and guarantee losses caused by sharp devaluations.



Source: Bloomberg Financial Market, Haver Analytics, IMF

Figure no 6. The effects of the crisis on food prices and fuel inflation (Consumption index variation)



Source: Bloomberg Financial Market, Haver Analytics, IMF

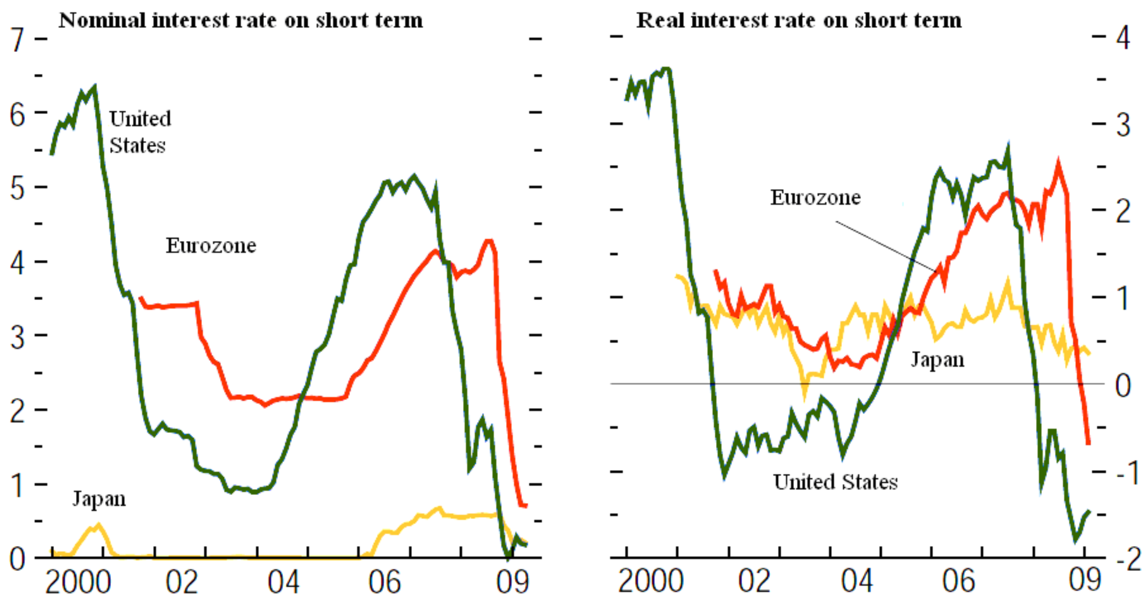
Figure no 7. The effects of the crisis on primary inflation and base inflation

Moreover, authorities have implemented strategies to ensure a continuous flow of cash banks have extended guarantees for their funds to counter pressures on funding, helping to recapitalize banks with public funds and announcing the initiation of programs to rehabilitate markets in difficulty.

However, the government announced policies were often deficient in information, thus failing to impart market confidence, the international coordination of initiatives to relaunch completely absent, resulting in difficult or impossible to control externalities and the elimination of uncertainty that hung over assets lacking credibility was unfortunately limited.

At the same time, given the widespread reduction in inflation and the increased risk in the markets, central banks have used a range of conventional and unconventional levers to support national economies and improve credit market conditions. Monetary policy rates were cut drastically, approaching 0.5% or even less in countries like Canada, Japan, United Kingdom[21] or United States and reaching the lowest level in history for the Euro area.

As fears of recession and increased monetary limits, governments turned their attention to fiscal policy and how it can be used to support the application. In addition to standard procedures stabilization incentives scale return of such tax rates were adopted by most developed economies such as Germany, Japan, Korea, UK and USA. Although the impact of the recession and incentive policies will be felt only this year, fiscal deficits associated with major developed economies rose by more than 2% in 2008, after a sustained period of consolidation.



Source: Bloomberg Financial Markets; Eurostat; Haver Analytics; OECD Economic Outlook

Figure no 8. Changes in interest rates (%)

As regards the emerging economies of Europe, significant internal vulnerabilities and in some cases relatively rigid exchange rates are complicated and difficult application of anti-crisis policies. A number of states marked by weak banking systems, currency fluctuations and balance of payments deficit resort to external financial support from the IMF or other official sources. Stability induced by this type of aid, however, is only apparent, since international environment continues to be dominated by crisis-induced mutations.

4. Conclusions

In the past 20 years have produced major changes in international economic context, changes marked the Soviet Union collapsed and centralized economies in Eastern Europe, reforms in China and India, export-based growth strategies in East Asia, however leading to the creation of the global market and also bringing 4 to 5 billion people. Thus, we can say unequivocally that the current state of the global economy is a direct consequence of financial globalization.

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[21] http://www.bankofengland.co.uk/monetarypolicy/decisions/decisions08.htm

Major financial shocks that occur where existing cracks deepen political, economic and social, and sometimes a new order replaces the old. In 2010, states across the world over blast, which invariably will lead to changing the current world order.

In the contemporary period, recessions have declined both in frequency and in intensity, while the economic expansion periods were extended. But recessions associated with financial crises have become more severe and more extended than those accompanied by other disturbances. Recovery from this recession is therefore much slower and is also associated with lower domestic demand and acute shortage of liquidity.

Similarly, recessions produced simultaneously in several states are, in turn, considered to be deeper and more extended than unilateral. In this case, extremely difficult recovery occurs, the influence of international trade are lower than for unsynchronized recessions. Recession currently facing world states can be characterized as highly synchronized and coupled with severe financial crisis, a rare combination at least for the postwar period.

Thus at least for most developed economies and some emerging ones (excluding the Asian region) out of the crisis will be extremely difficult, thus justifying the historical parallels between now and the Great Depression of the 1930s, by far the most long and deep recession known by most developed countries.

In this new context, leaving the crisis would mean the chance to restructure the global institutions and policies, the chance to create a new global economic system suitable current century; it’s a "responsible globalization", which would promote fiscal stability and a balanced global growth. All this would result in increasing the benefits of trade and markets, investment, competition, innovation, growth, and free information.

Grounds great expansion of sub-prime loans are not hard to spot. After 2000, with recession in the U.S. economy falling, the Federal Reserve cut U.S. interest rates until, in June 2003, they reached 1.5%, the lowest level after 1958. Consequently, increased availability of money is required for markets to be able to absorb. Not surprisingly, the most appropriate market to capture the multitude of new funds available was the housing market as home prices show a further slight increase after a period of stagnation. Bad loans were seriously affected as U.S. banks and those engaged in this type of foreign investment and, in a domino effect, real estate crisis has triggered the financial crisis.

Immediately after the outbreak of the sub-prime crisis in the United States, outburst that culminated in August of 2007, the world economy has been severely shaken, but still had negative effects really make their presence felt. Economic activity was reduced in intensity because of tightening credit conditions, while the end of the first half of 2008 mark economies into a recession stage of moderate recession but still disrupt the relatively robust growth rates in emerging economies and developing.

Deteriorating economic situation of the United States and followed its course with the second outbreak of the financial crisis in September of 2008, followed by the bankruptcy of a large American investment group, Lehman Brothers, the rescue efforts of the largest companies American Insurance, American Insurance Group - AIG, and interventions to support a number of other systemic institutions in the United States but also in Europe (Bear Stearns).

Latest analysis shows however that with the passage of 2009, economic contraction intensity began to decrease in intensity. Confidence in the economic environment shows also a slight improvement and it seems that stabilizes the volume of transactions of goods, from decreasing the price level and the anticipation of improved macroeconomic policies of the current situation. However, however, unemployment continues to rise, especially in the U.S., where, in May 2010, reached 9.8%.

Some opinions say that gained international disparities by 2007 had no influence on the crisis, but errors in domestic policy, combined with the failure of fiscal stabilization, particularly from the United States. Others argue that China's high rate of savings, oil exporters and other countries that had surplus cash, leading to lower real interest rates globally, forcing investors to rush and very risky investments.

For an effective economic recovery can take place, it requires drastic action, no easy task as requiring international correlation. In most advanced economies, but also a limited number of emerging economies, require a relocation application, yet focused on consumers of all (public), relocation to the private sector and coupled with consolidation of public finances and financial sector restructuring. The emerging economies and the advanced will have to boost economic growth based on domestic sources, since demand in international markets will not reach the level too soon before August 2007.

Production of quick recovery from the crisis involves the application of policies based on individual circumstances. But the temporal variation of such individual policy may cause externalities, and these should be considered when defining such policies. Externalities induced by fiscal policies have a significant impact on developed economies - contractions national economies adversely affect exports to other countries and large deficits, a lack of strategy related medium-term fiscal consolidation affect exchange rates.

Recovery policies should focus on the macroeconomic imperfections, which in the past decade, global imbalances have led to major changes in current accounts were regarded as harmful only if the distortion causing internal or systemic or global dislocations generated (depreciation an uneven international reserve currency).

Lessons that countries of the world should learn from the production of this global crisis are as numerous as it is clear. Global crisis started in 2007 has demonstrated once again the fragility of the international financial system fragility enhanced by the high degree of globalization of financial markets.

Finally, despite strong global economic crisis has shaken the U.S. position of world's most developed economy and China's economic situation and availability of money available to seriously threaten the position and despite the fact that there are a number of indicators decline in global economic hegemony of the United States, described the global nature of the crisis facing today suggests that United Villages remain, at least for now, the strongest economy in the world.

Finally, although the global economic crisis has shaken undoubtedly strong position, its economic performance is still the most important barometer of global economic status. Contrary substrate complex interdependencies of the contemporary period, it seems that popular war saying, "when America cool, coughs rest of the world" still stands.

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