Chronological Description about Financial Crisis and Gap between Academic and Professional Approach

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Chronological Description about Financial Crisis and Gap between Academic and Professional Approach

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Prior to 19th century, the speculative bubble is which exists in the over-pricing asset like the Dutch tulip mania (1637), South Sea Bubble (1720) and Mississippi Bubble (1720). During the 19th century, the economic recession accompanies with bank failures. For example, in the 1st boom to bust economic cycle of U.S., the reason of U.S. economy recession is mainly progressed with the bank failures (1819). The big government project like overbuilding of railroad requiring financing from banks causes the British collapse at the end of the 1840s railroad boom (1847) and a panic in the United States (1893).

After the Second World War, the Great Depression, the largest and most severe economic depression, was occurred. In most countries, it started in 1930 and lasted until the late 1930s or middle 1940s. In the 20th century, financial crisis are various like the specific district (Wall Street Crash of 1929), specific product (oil crisis, 1973), specific location (Latin American Debt Crisis, 1980s/US Saving and loan crisis, 1989/Japanese Asset Price Bubble, 1990/Economic crisis in Mexico, 1994/Asian Financial crisis, 1997/Russian Financial Crisis, 1998) and specific date (Black Monday, 1987/Black Wednesday, 1992).

In the 21th century, the internet industry which faced the Dot-com bubble in 2001. After the worst financial crisis of 2007-08, in the European sovereign debt crisis in 2010, the Eurozone still suffers.

We have passed the speculative bubble, economic recession with bank failures, specific subjects sorted by the district, product, location and date), new industry crash, sovereign crisis.
Indeed, we know that financial crisis is the panic situation caused by the sudden shock of financial assets. Then, how do we feel about our panic situation after the financial crisis?

The biggest feeling is that it is embarrassing our government as the safeguard did not work and it will be spread from one institution to another or from one country to another. We instantly lost our point of judgment how we measure scope of failure. Although we want to predict the failure of financial market and prevent it with the risk measures, finally we close to get the result of failure of market system again as time goes by.

Money has circulated by anonymous transactions under uncertainty by unbelievable number of people. There is no name, no date on the money moving at every moment. We puzzle whether we know the fixed point of contagion at the financial crisis and whether the regulation regimes like the IMF, the Basel 3 should be blamed on insufficient regulation or excessive regulation. As the gap between the academic and professional work exists, financial crisis can be just tracked and can’t be predicted.

In the 1970’s, most researches about financial stability were well done. Kahane (1977) claimed that the minimum equity regulation should be accompanied with the leverage method as ration analysis and Pyle (1986) suggested the intermediation model. After the Basel 2, excessive regulation becomes the rising issue. Because of asset-liability mismatch, asset-capital ratio can be biased. However, in the Basel 3, the leverage ratio calculated by dividing tier1 capital by the bank’s average total consolidated assets, has been adopted. The enhancement with the co-work of academic and professional researches is needed in the financial crisis research.

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