

A Tsunami That Happened out of the Sea? Financial Tsunami Aka Financial Crisis

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Abstract: The financial crisis triggered by the US subprime mortgage crisis in 2008 swept the world, bringing a huge impact on the global economy. Based on some case studies this paper analyzes the root of the outbreak of economic crisis and concludes that the root of the outbreak of crisis lies in the basic contradiction of capitalist system. One example is that the collapse of Lehman Brothers. Considering that the socialist market economy will also be affected by the global financial crisis and economic crisis, this paper puts forward some suggestions on how to prevent and deal with the economic crisis in the future.

1. Introduction

As since the end of 2008 the us subprime mortgage crisis, and gradually spread to foreign evolved into a global financial crisis and economic crisis, the international financial situation changed dramatically, and more and more high unemployment and a huge debt risk under the influence of unfavorable factors, such as gradually from developed countries to emerging economies and developing countries spread, spread to the real economy. From 2007 to 2008,

America's unemployment rate has entered a prolonged recession. At March of 2007, the unemployment rate was 4.4%. Additionally it rose at 4.8% at the first month of 2008. When it comes to the middle period of 2008, it arrived to 6%. Overall joblessness reached 10.2% in October. It means that 16 millions of people are looking for jobs. The occurrence of the us subprime crisis and trigger a global financial crisis is a series of events, the U.S. government to real estate mortgage market crisis intervention gave birth to the source, the fed with interest rates the way of the economic crisis triggered the fuse, and the United States is complex and open financial system packaged subprime crisis expands and infect the global financial market, but the main reason is the fed with interest rates of the economy. Our country suffered since the reform and opening one of the most severe external economic shocks, lead to China's economic growth rate falling. Urban unemployment fell from 4 percent in 2007 to 4.5 percent in 2008. Therefore, from the analysis results of the trend and situation of the global financial crisis, it is of great significance to make full preparations to realize the sustainable growth of China's economy and social stability. Therefore, in terms of the response, I think the crisis has happened and the country has been affected. Therefore, China needs to do, one is to reduce the existing loss as far as possible, to avoid further losses. In terms of reducing losses, China should actively seize market opportunities, strengthen communication with all sectors of the US community, especially the US government, and make preparations for various responses. At the same time, China should carefully study the financial institutions and financial situation of the United States to avoid wrong investment. Second, we should fully assess the impact of the losses of financial institutions on China's economy and finance, especially in combination with the international and domestic situations, to prevent the transmission of losses in China and the financial system and the real economy

2. Main Body

Since 2000, the domestic financial innovation activities in the United States have increased greatly. After the bursting of the dotcom bubble in 2001 and the September 11 attacks, short-term

interest rates stayed below 3% until May 2005. In the long period of low interest rate environment, has greatly promoted the development of the American real estate economy. The real estate industry in the United States has become an important engine driving the American economy, and at the same time, it has promoted the rapid development of loan securitization.

The formation of subprime securities is to integrate, divide and compile a series of securitized commodities with the creditor's rights of subprime loans as collateral, and to generate more financial products through layer by layer segmentation, repackaging, rating and derivation. As the interest rate of the subprime mortgage is 2%~3% higher than that of the ordinary loan, in the face of the huge interest, the lending institutions, regardless of the risk of the replacement, issued a large number of subprime loans, and eventually formed a huge amount of subprime securities. In 2005, the financial correlation rate in the United States was 381%, and in 2006, it reached 401%. The financial scale was far beyond what the real economy needed. The giant financial institutions in the United States used innovative technologies to create a large number of financial derivatives, forming a "virtual financial world" far away from the real economy.

The Fed began sharply raising its benchmark interest rate in 2004 in an effort to cool the economy and prevent inflation. By June 2006, 17 consecutive interest rate increases had taken the federal benchmark rate from 1% to 5.25%. Correspondingly, the repayment pressure of housing mortgage loans increased sharply, and the default rate continued to rise. Correspondingly, consumer confidence lost, and the real estate prices began to decline sharply. Finally, the subprime mortgage market saw an increase in the proportion of foreclosure and delinquent repayment, leading to the occurrence of the subprime mortgage crisis.

The economic crisis is based on the imbalance of the global real economy. The appearance of the global economic crisis is the imbalance of global revenue and expenditure, and the imbalance of the real economy is the fundamental essence of the imbalance of global revenue and expenditure. There are many reasons for the imbalance of the global economy, but in a decisive sense, the root of the global economic crisis lies in the imbalance of the real economy. The continuous flow of financial capital around the world is caused by the imbalance of the real economy. The flow of global capital has led to the expansion and depression of the virtual economy, resulting in a shortage of liquid funds, leading to the outbreak of the global economic crisis. Therefore, the imbalance of the global real economy is a necessary condition for the economic crisis, and the sufficient condition for the economic crisis is the shortage of liquid capital caused by the virtual economy. The imbalance of the regional or global economy will lead to the re-allocation of global financial capital.

In the context of economic globalization and regional integration, the country's overall policy influence is regional or global. In a short period of time, the total amount of global capital and demand is certain, but when a country's economy changes, it will cause changes in global capital and demand. The economy of a small country will be affected locally, and the economy of a large country will be affected by the world. Impact. The growing economy of a large country will attract global capital to flow into that country, leading to capital outflow in some countries. When the capital outflow reaches a certain level, capital shortage will occur, and the economic crisis will change from possibility to inevitability. The strong monetary policy of large countries or the high interest rate policy of large countries are the signals of this change. As for the economy of a small country, when the economy becomes stronger, it will attract global capital inflows. When the number of inflows is large, when the country's real economy is saturated, global capital will integrate with the country's virtual economy to promote economic growth. The virtual bubble, when the virtual economy and the real economy diverge severely, caused small countries to change from excess liquidity to liquidity squeeze, and the rapid retreat of global capital led to the outbreak of an economic crisis.

Another important point is that the generation of U.S. subprime debt is an important factor in the economic crisis. The emergence of the subprime debt crisis is not only caused by the evolution of the subprime mortgage crisis, but also due to the transfer of the subprime mortgage crisis. In this process, there are also the participation of lending institutions, securities companies and investment individuals. The evolution of the whole process is the development process of an investment chain.

Risks need to be passed on continuously. At the same time, risks also exist in any link. Therefore, once there is a problem in one of the links, the subjects of the entire chain will be affected. For example, in subprime mortgages in the United States, lenders bear the risk of repayment and creditworthiness of the borrower. Lending institutions are more optimistic about the development of the real estate industry, and the increase in housing prices will increase the economic source of lenders. Therefore, the loaner's repayment ability can be improved. However, the fall in housing prices will affect the borrower's ability to repay, cut off the borrower's source of repayment, making lending institutions bear a significant risk of default. Although the rise in housing prices has not risen to the expected growth rate, the borrowers all indicate that they cannot repay their loans normally and may default. The phenomenon of default makes the bonds that the lending institutions transfer to banks quickly depreciate. In this way, the bond issuer receives claims from the creditors, and the bond issuer finds the lending institution, and the lending institution cannot repay the creditor's loan, so it is forced to go bankrupt. Banks were also severely affected because they could not recover the capital of lending institutions, which constituted a vicious circle. If there is a sudden problem in one of the links, it will cause each subject in the entire capital chain to be affected. The dominant factor affecting this capital chain is the development of the real estate price market.

In the issuance review department of subordinated bonds, lower review requirements have increased the risk of subordinated bonds. The issuer of subordinated bonds is the bank. The bank has insufficient knowledge of resisting the risks of subordinated bond issuance, and has not made some preparations for resisting any risks. When risks occur, the banks have not taken the necessary measures, which will increase the number of non-performing assets in the banks. . The increase of non-performing assets makes banks more and more risky. At the same time, the problems of these non-performing assets will cause the depreciation of assets and make banks suffer losses. Many securities and bank wealth management products issued by securities companies related to subordinated bonds will be adversely affected by subordinated loans. Therefore, any financial product in the subordinated bond portfolio bears the risk of subprime loans. If a link appears cracks, the securities of securities companies will be greatly impacted, causing the break of the capital chain of various industries. As a guarantee agency for subordinated bonds, insurance companies also bear great risks. The insurance company guarantees the purchaser of subordinated bonds and pays fees for the subordinated bonds regularly. If a large number of financial defaults occur, the insurance company will assume huge risks and compensation. In this way, the generation of subordinated debt, if it undergoes continuous evolution, will eventually lead to the emergence of the American economic crisis, which in turn leads to the occurrence of the global economic crisis.

3. Conclusion

It is not hard to see many similarities between China today and the United States in 2008 and Japan in the 1980s. In recent years, with the central bank's continuous reduction of reserve requirements, interest rates, housing mortgage loans have a qualitative leap. Similarly, personal lending remains high, and a large proportion of it is consumer lending, meaning that it is not generating much value creation. The real estate market is very popular and the housing price remains high, especially in the first and second tier cities. The large influx of population leads to the rising housing demand year by year. At the same time, the introduction of a property tax has raised concerns about whether the so-called property tax bubble will burst. In Japan in the 1980s, due to the wrong decision of the governor of the Central Bank of Japan, the interest rate was raised blindly and the property tax was introduced, which led to the collapse of the housing price. Now, how to make sure that inflation is kept down, that the economy doesn't overheat, but that it doesn't fall into recession. Economic booms and busts have damaged sustainable development, and the cost of recovery is too high.

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