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37. The real origins of the European crisis

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Introduction: Financial crises are a recurring event in the global macroeconomic scenario. Kindleberger and Fratianni (2008) have counted today 1622. However, with the exception of that of '29, all others have been united from having invested exclusively in developing countries.

Resources and methods: The main methods for writing of this thesis was the method of deduction and analysis.

Results: The current crisis originated in the U.S. financial market and spread to all economies, advanced and can thus be defined as the first true systemic crisis since the Great Depression of the thirties.

Although the underlying causes of the crisis are linked to the outbreak of bubble subprime mortgages in the United States and the complex securitization mechanism associated therewith, these factors represent, however, only determinants of short period. The great crises, in fact, are often linked to deeper imbalances of a real economy that may affect the internal and international level.

The determinants of crisis are attributable to:

1) The process of deregulation of financial markets. In the early eighties, in the context of a policy strategy economic time to free the market from the strings and wires that had hitherto characterized the functioning of economic systems, Thatcher - in England - and Reagan - in the United States -, gave impetus to a process of deregulation that has also affected the financial market. The measure more incisive, in this direction, was adopted in 1999 with the "Gramm-Leach-Bliley Act" which resulted in the separation between commercial banks and investment banks, the Fed transferring the Securities and Exchange Commission, the task of supervision of the banking sector.

2) A policy choices adopted in the United States since the eighties. In the framework of the policies of "supply-side economics", started by Reagan in the early eighties, characterized, on the one hand, as cuts to taxation in order to stimulate the incentive to produce and invest and, secondly, by a restrictive monetary policy time to absorb inflationary pressures have started to register a process of deterioration in the current account of the U.S. balance of payments. However, this economic policy led to a sharp increase in the deficit and the internal current account, in fact, the international competitiveness of American companies was hampered by an unfavourable exchange rate.

3) The accommodative monetary policy implemented by the Fed since the late nineties. Accommodative monetary policy since the end of the nineties has tried to ensure a growth

path, characterized by an internal support of the application, can be another important determinant of the current financial crisis, brought back to the expansionary monetary policy implemented by the Federal Reserve between from 2001 to 2003.

Conclusions: If there is a lesson to be learned (once again) on the financial markets in 2011 is that the best features for a investment success are patience and discipline.

The uncertainty in the markets is in fact the rule, not the exception: the economic realities are too complex to be modeled in a precise and financial markets, especially in the short term, are governed by behavioral science, not mathematics or physics. Things that do not have never happened are bound to happen: the risk of an investment is not given the volatility of a market or instrument, but the possibility that capital may be lost permanently.

References

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