

“Global Banks and the Transmission of the 2007-2008 Crisis”

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Abstract:

The financial crisis of 2007–2008 is triggered by a liquidity crisis in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy over the 2010–2011 periods.

The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities. Global banks and their balance sheets have played a key role in this transmission. When there is a credit crunch in one country, global banks may pull liquidity from their foreign affiliates helping their home country but at the same time transmitting the shock to other countries. Financial linkages overall has been more important than the traditional trade linkages for contagion during this crisis.

In this short course, we first review the main underlying causes of the global crisis. Then we study the transmission focusing on the central role of banks and their balance sheets. We conclude by over viewing the implemented policy responses and suggested regulatory and financial structures.