



# Global Lessons and Implications of the Financial Crisis

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# Credit induced cycles.

- Loose credit
- Asset price bubble
- Bubble pops, market crashes
- Bankruptcies
- Credit dries up
- Investment grinds to halt
- Recession

- ● ● | Credit induced cycles.
- ● ● | Examples from around the world

<i>Country</i>	<i>Peak</i>	<i>Trough</i>	<i>GDP Loss</i>	<i>Recovery</i>
Sweden	1991.4	1992.3	-18%	5 quarters
Thailand	1996.4	1998.2	-19%	7 quarters
Argentina	2001.2	2002.1	-27%	10 quarters

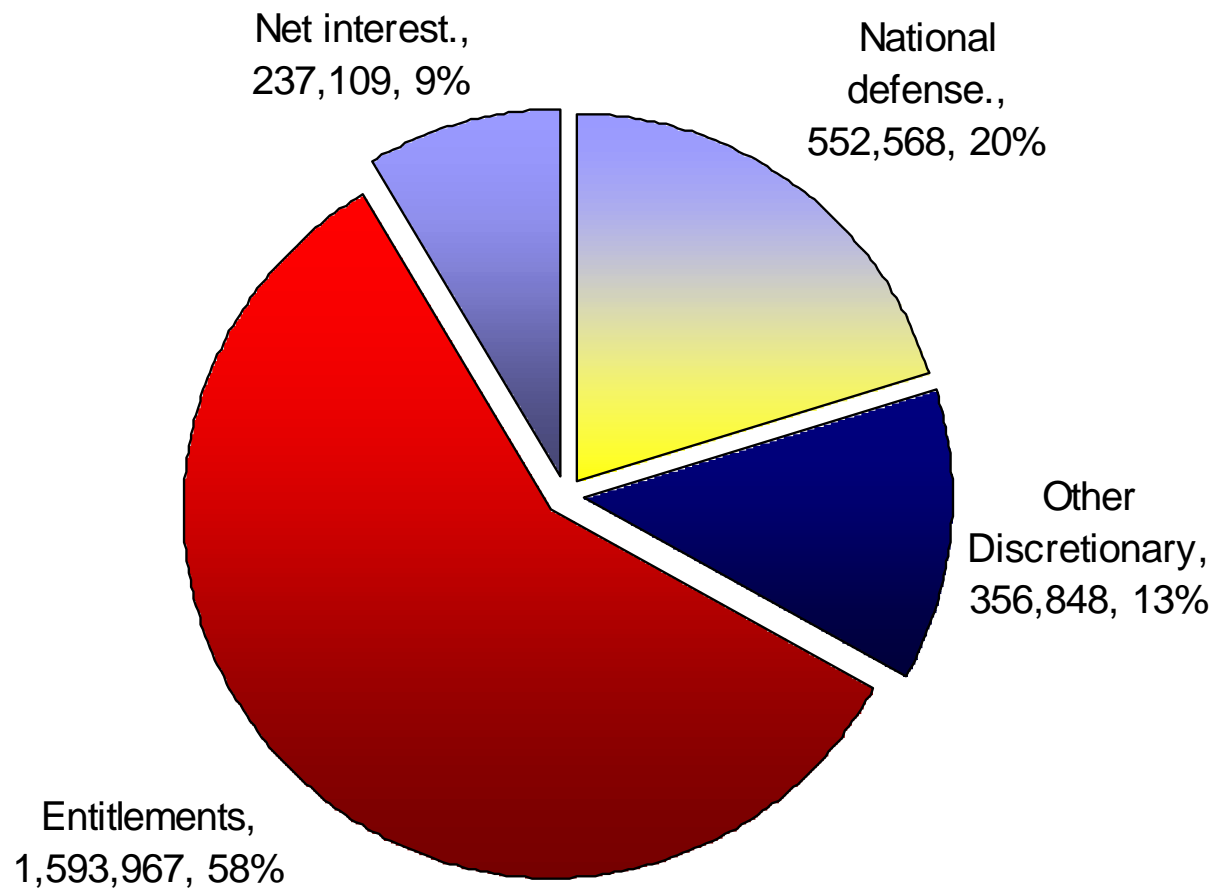
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Thailand	1996.4	1998.2	-19%	7 quarters
Argentina	2001.2	2002.1	-27%	10 quarters
Japan	1993.1	1994.2	-4%	5 quarters
USA	1929	1933	-30%	3 years

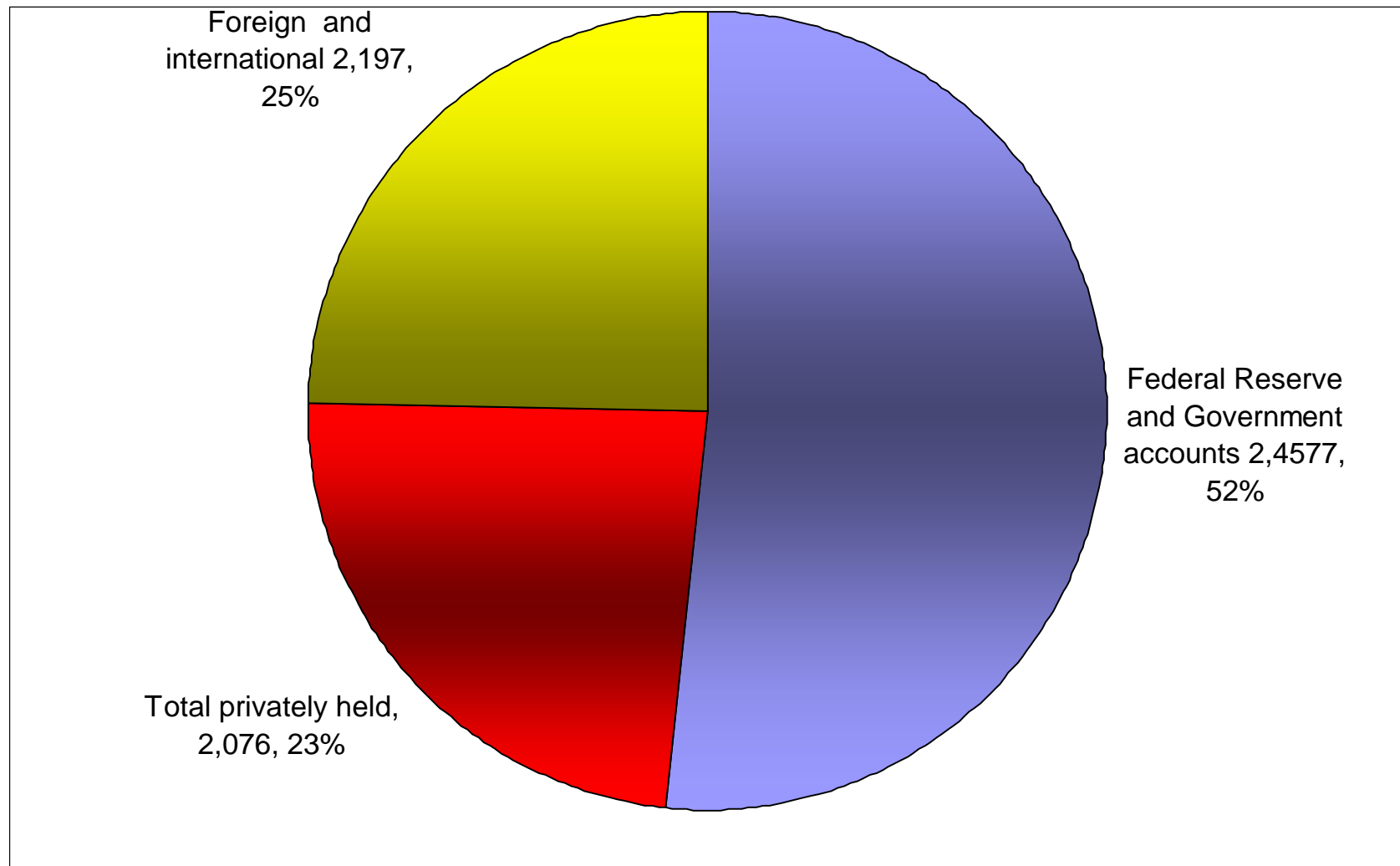
● ● ● | Is \$700 Billion a Big Number?



# Federal Outlays 2007 (millions)



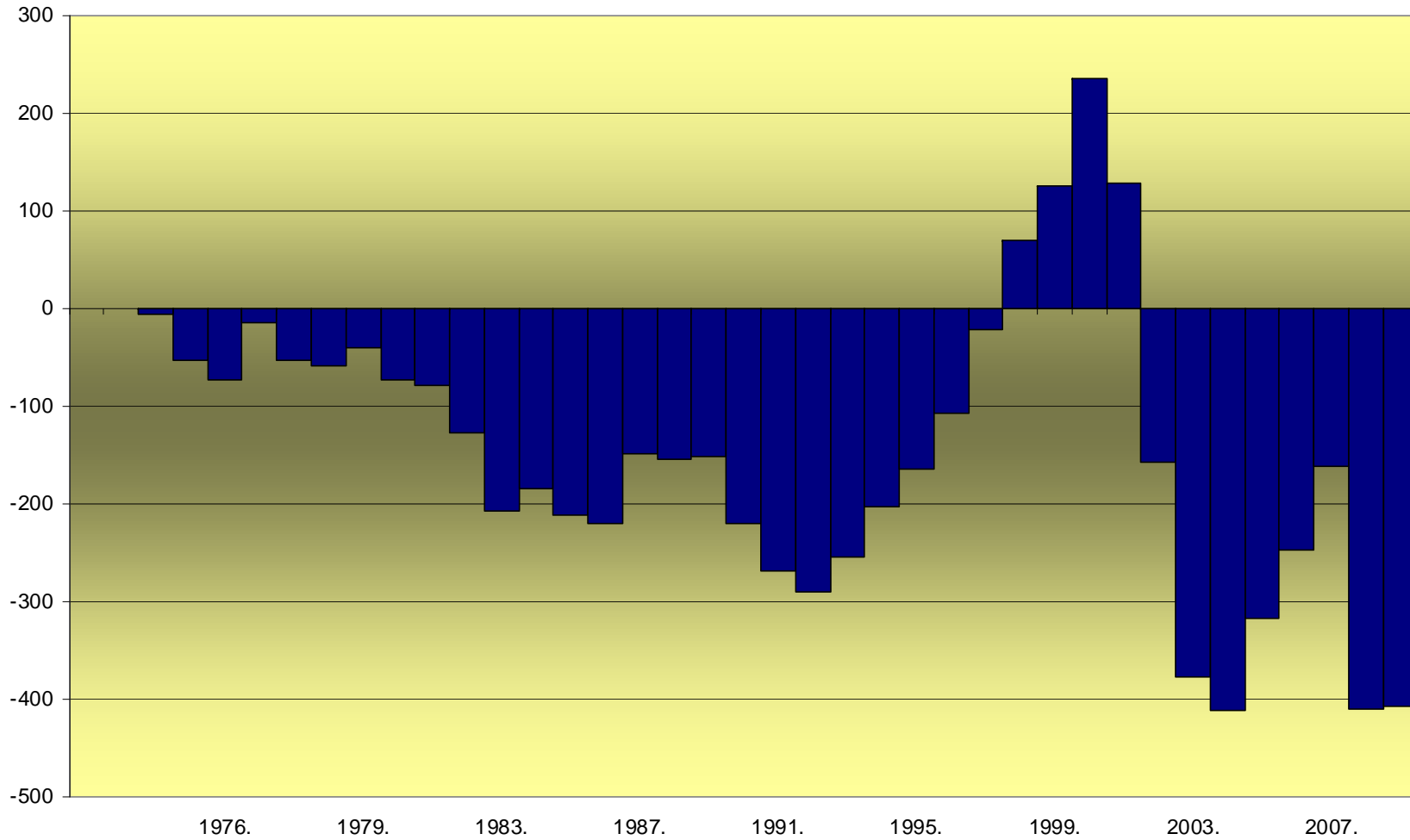
# To Whom Do We Owe Our \$8.8 Trillion National Debt?





# Federal Budget Deficit (-)

Surplus or deficit (-) (on-budget and off-budget)





# TWWSC Bank Balance sheet

(Thought We Were So Clever)

- Assets

- 700 (Bad Assets actually worth 500)
- 500 (Good Assets)

- Liabilities + NW

- 1000 (Borrow from investing public)
- Net Worth
  - 200

# TWWSC Bank Balance sheet

(Thought We Were So Clever). **RUN ON BANK**





# TWWSC Bank Balance sheet

(Thought We Were So Clever).

**RUN ON BANK. Option 1—Original Paulson Plan**

## ○ Assets

- -700 (Bad Assets actually worth 500)
- 500 (Good Assets)
- 700 (Cash from Hank)

## ○ Liabilities + NW

- 1000 (Borrow from investing public)
- -500 (withdraw)
- Net Worth?
  - 200



# Meanwhile, over at the US Treasury Fund

## Option 1—Original Paulson Plan

- Assets
  - 500 (Bad bank assets)
- Liabilities + NW
  - 700 (Borrow from China)
  - Net Worth
    - -200



# Meanwhile, over at the US Treasury Fund

## Option 1—Original Paulson Plan

- Assets
  - 500 (Bad bank assets)
- Liabilities + NW
  - 700 (Borrow from China)
  - Net Worth
    - -200
- Worse than
  - Denver airport baggage system
  - New Coke
  - The Titanic



# Meanwhile, over at the US Treasury Fund

## Option 1—Original Paulson Plan

- Assets
  - 500 (Bad bank assets)
- Liabilities + NW
  - 700 (Borrow from China)
  - Net Worth
    - -200
- Worse than
  - Denver airport baggage system
  - New Coke
  - The Titanic
- Plan Sunk Before It Was Launched



# Meanwhile, over at the US Treasury Fund

## Option 1—Original Paulson Plan

- Assets
  - 500 (Bad bank assets)
- Liabilities + NW
  - 700 (Borrow from China)
  - Net Worth
    - -200
- Worse than
  - Denver airport baggage system
  - New Coke
  - The Titanic
- Plan Sunk Before It Was Launched
- (Gazillions for Goldman)



# TWWSC Bank Balance sheet

(Thought We Were So Clever)

**Run on Bank**

**Option 2—Fed as lender of last resort**

## ○ Assets

- 700 (Bad Assets actually worth 500)
- 500 (Good Assets)

## ○ Liabilities + NW

- 1000 (Borrow from investing public)
  - **-500 (withdraw)**
  - 500 (Borrow from Federal Reserve)
- ## ○ Net Worth
- 200



# TWWSC Bank Balance sheet (Thought We Were So Clever).

## RUN ON BANK

Option 3—Treasury as White Knight recapitalizes the banks

### ○ Assets

- 700 (Bad Assets actually worth 500)
- -200 (writedowns)
- 500 (Good Assets)

### ○ Liabilities + NW

- 1000 (Borrow from investing public)
- -500 (withdraw)
- Net Worth?
  - 0 (Equity holders)
  - 500 (Treasury warrants)



# Some Good Ideas From the Last Couple of Days

- Interbank loan guarantees
- International Coordination
- Warrants (Option to own)
  
- These smart ideas came from the English and the Europeans



# What's coming? IMF Forecast

**IMF: Global growth to slow to 3% in 2009.**

2008 global economy expected to grow by 3.9%.

**U.S.** to expand 0.1% next year, after growth of 1.6% this year;

Growth to be "particularly weak" in the G-7 countries -- the U.S., Japan, Germany, France, the U.K., Canada and Italy.

**U.K.** to contract by 0.1% next year;

**Italy's** economy will contract 0.2%;

**Germany** is expected to post zero growth next year;

**France's** economy will register 0.2% growth;

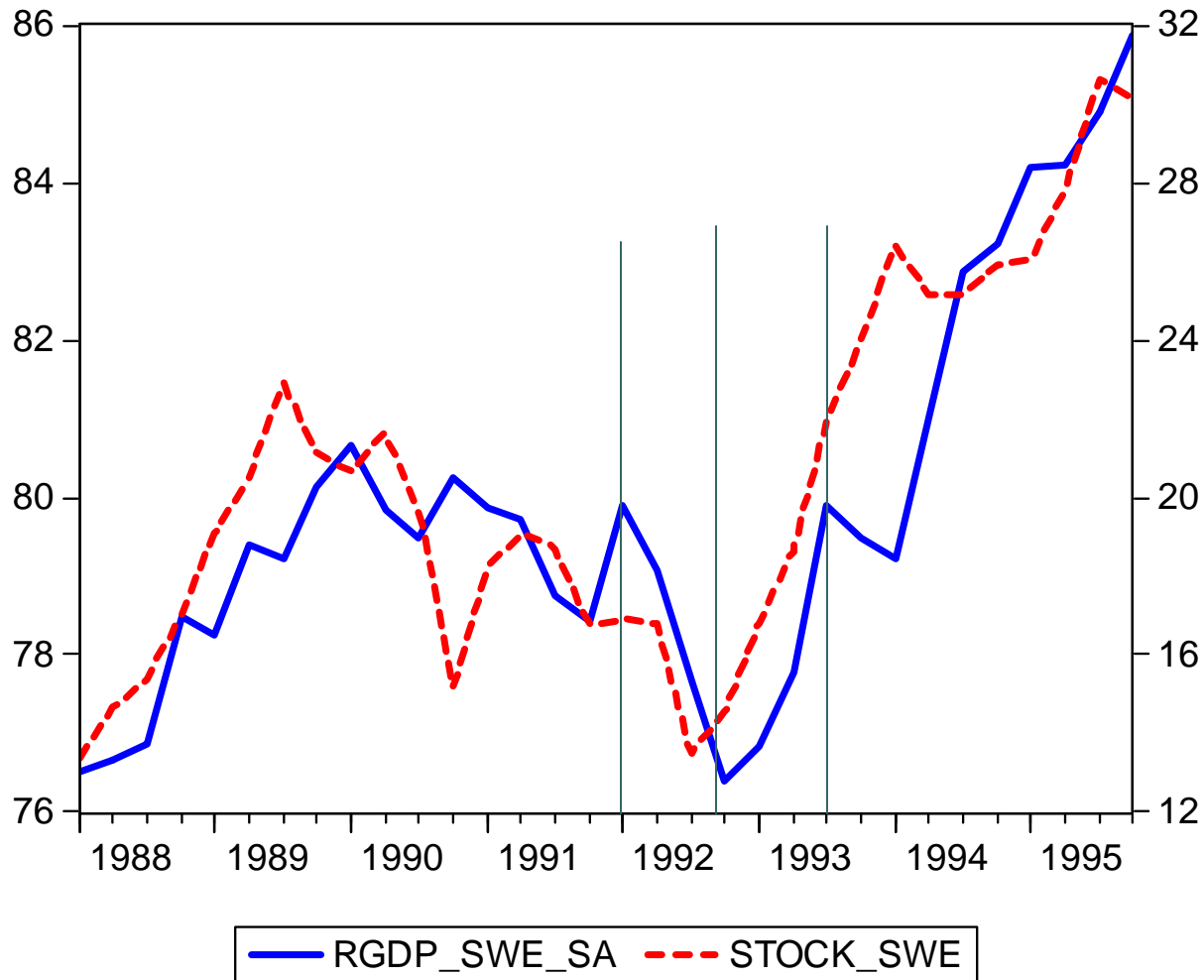
**Canada** to grow 1.2%



## Last Words

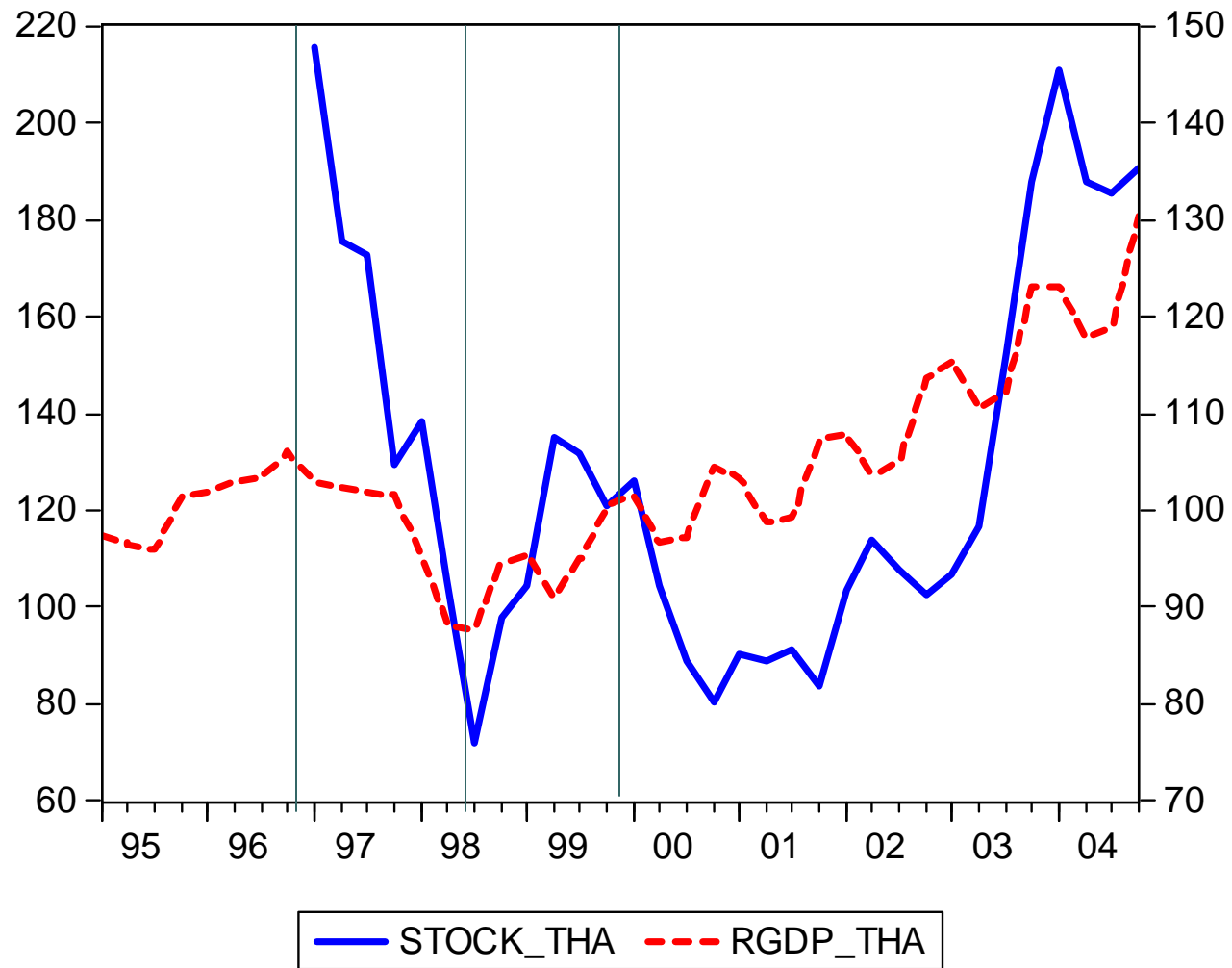
- Since we've started down this path, some sort of bailout needs to be engineered.
- Force write-downs
- The Treasury (US taxpayers) should earn a profit or at least not lose on the deal

# Swedish RGDP and Stock Market around 1992 Banking Crisis

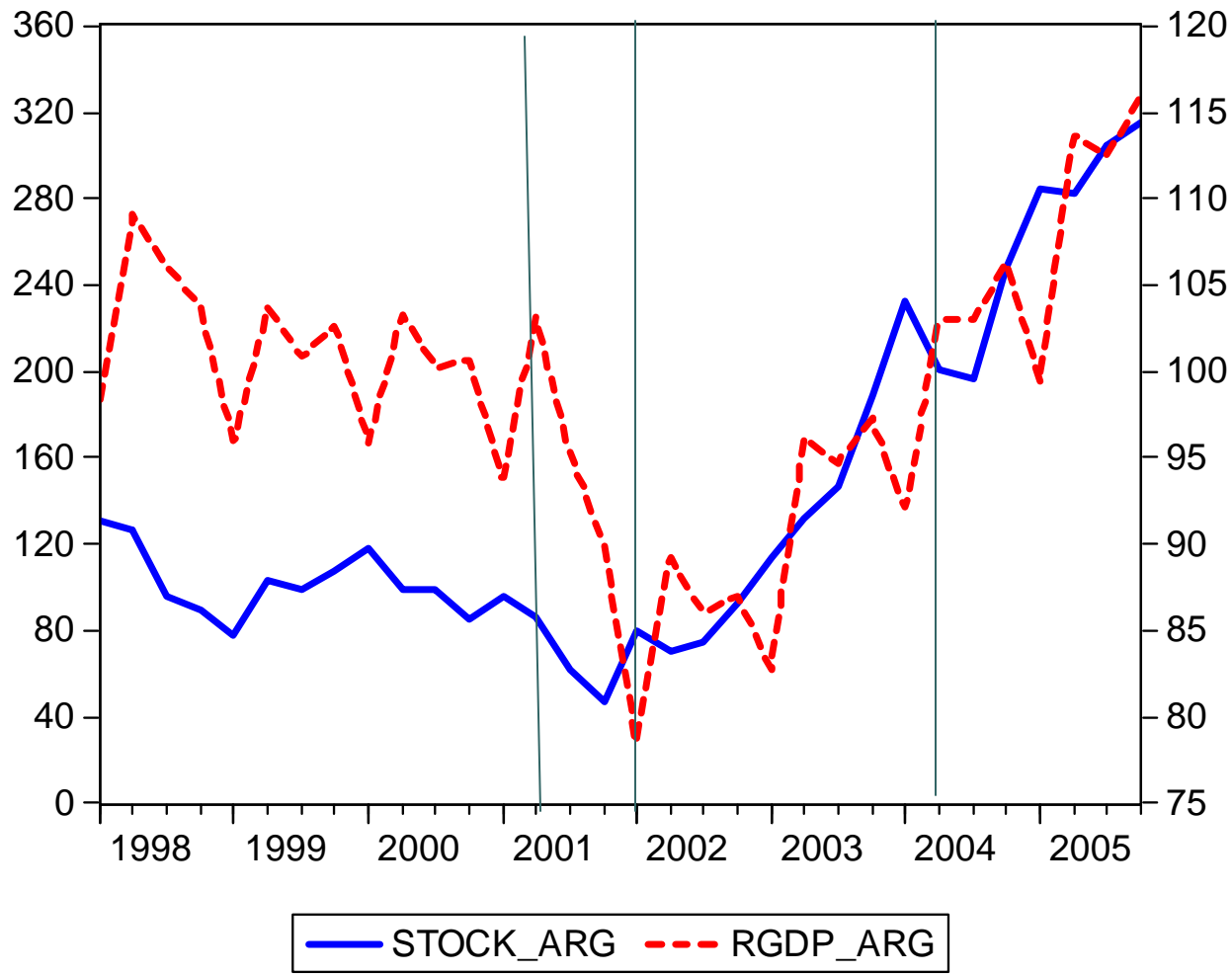




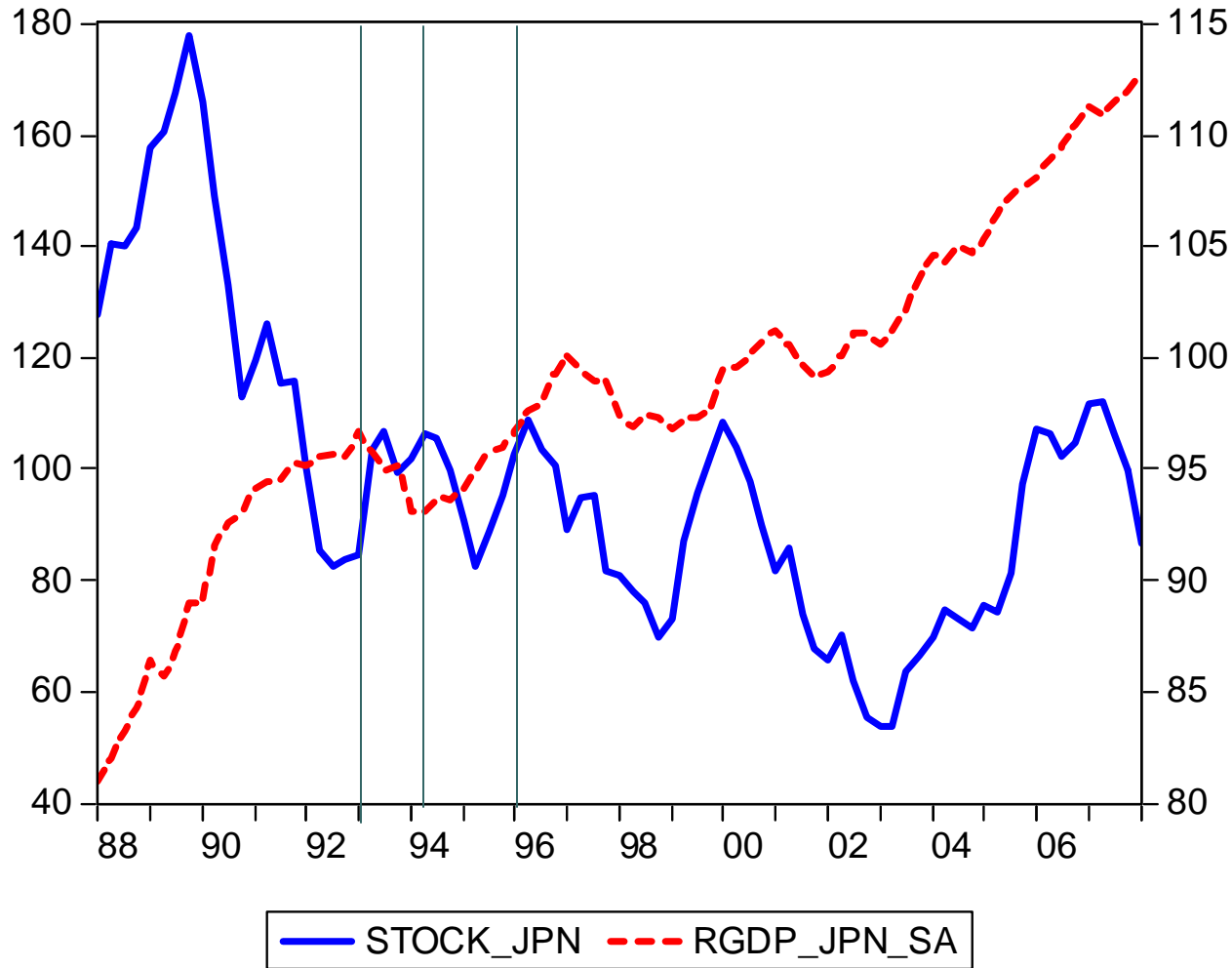
# Thailand Real GDP and Stock Market around 1997 Crisis



# Argentina Real GDP and Stock Market around 2001 Crisis



# Japanese Real GDP and Stock Market around 1990 Crisis





# Depression Era US Real GDP and Stock Prices

