

Financial Crises

Class 5: Typology of Crises and Case Study of the Czech Republic
Pop Economics



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MŠMT
MINISTERSTVO ŠKOLSTVÍ,
MLÁDEŽE A TĚLOVÝCHOVY

Types of Crises

- Mortgage crisis (or a crisis related to a financial product)
- Banking crisis - related to the whole banking sector
- Financial crisis - related to the whole financial sector
- Economic crisis – related to the whole economy

Sources of economic instability

- Vernon Smith
- **Consumer nondurables and services** (majority of GDP) do not constitute a root source of economic instability
- **Durable and storable consumer goods** (most prominently housing) constitute roots of economic instability: markets with large re-selling possibilities



Source: Cato Institute

Examples of assets sensitive to bubbles

- Real estate, housing
- Bonds
- Shares
- Securities

All these assets because of reselling option have a speculative element.

What other elements cause crises?

- Psychological element: speculation
- Size element: cryptocurrencies did not cause crisis
- Structural element: coal mining in Ostrava, OKD

Economic crisis

Financial crisis

Psychological elements

Bubbles and Speculation

Resellable goods
secondary markets

Structural crisis

Technological change

Decrease of a price of a
product

Geopolitical crisis

External elements (i.e. Trump
decision on sanction on Iran)

Crisis vs. recession vs. depression

- A crisis: sudden economic slowdown/downturn (lower pace of GDP growth, i.e. China)
- A recession: economic decline (↓ real GDP) that lasts for at least six months
- A depression: severe economic decline (↓ real GDP) that lasts for several years (i.e. decade)

- **Real GDP:** inflation-adjusted, value of all goods and services produced in a year by a country
- **Nominal GDP:** value of all goods and services produced in a year by a country at their current market prices

Economic Crisis in the Czech Republic

- 1st wave: 2009-2010, 2nd wave: 2012-2013
- Czech government was not prepared for a crisis ---> fiscal problem
- 2008: Finance Minister Kalousek proposes budget for 2009 with deficit of 38 bln CZK
- 2009: Economic crisis caused the final deficit was 192 bln CZK
 - growth of mandatory expenditures, salaries of public officials, pensions
 - higher expenditures on the unemployed, social transfers
 - lower tax income
 - no reserves for stimulation of the economy

Deficit/Surplus

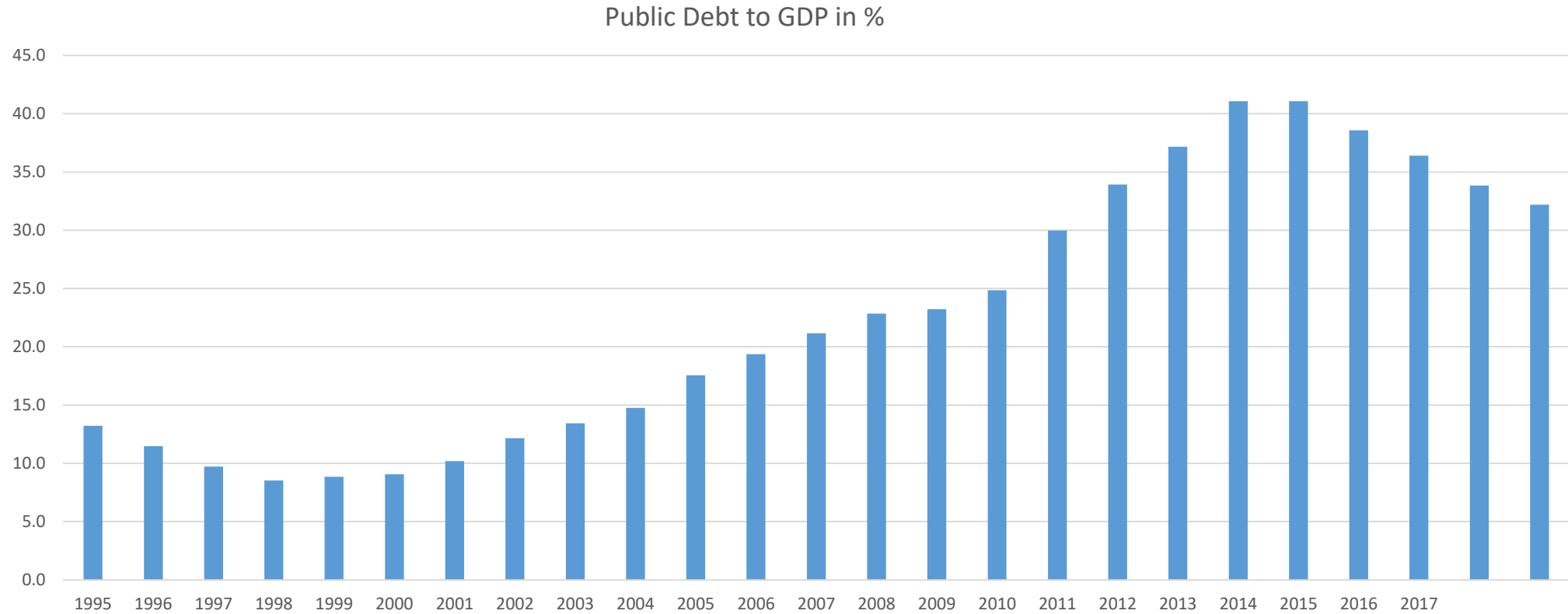
Deficit/Surplus of Czech Rep Budget

80 mld in 2017,
1,6 % of GDP



Public Debt to GDP in %

32,2 %
in 2017



Public Debt in Mil CZK

1,6 bln
in 2017



What to remember

- Types of crises
- Consumer nondurables and services
- Durable and storable consumer goods
- Recession
- Depression
- Crisis
- Real GDP
- Nominal GDP

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