

Financial Crises

Class 6:

Pop Economics: Legacy of Financial Crisis



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MŠMT
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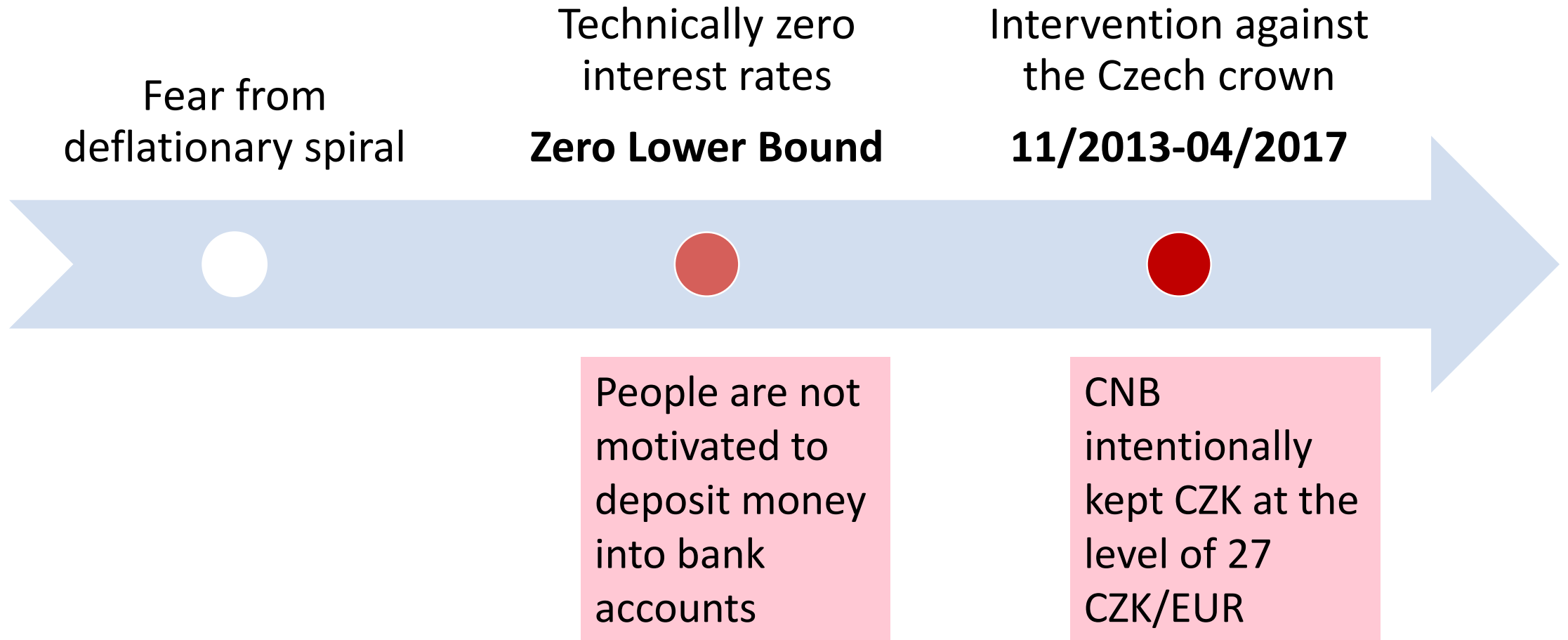
Financial Crisis Hit Entire World

- 2008-2009: Critical Phase of Financial Crisis
- 2011-2013: European Debt Crisis



Source: <http://stylemagazine.com>

Aftermath of Crisis in the Czech Republic



Zero Lower Bound

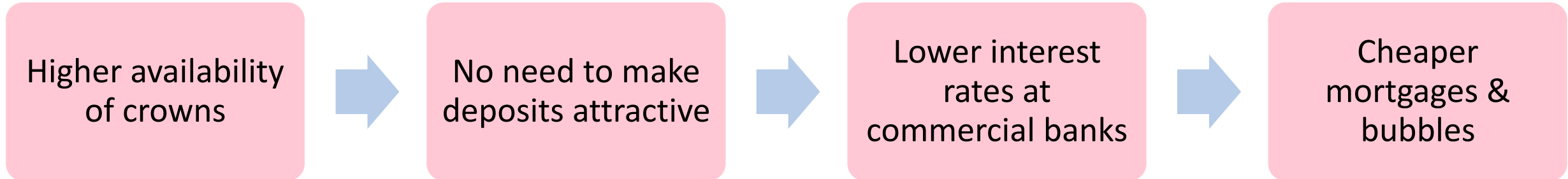
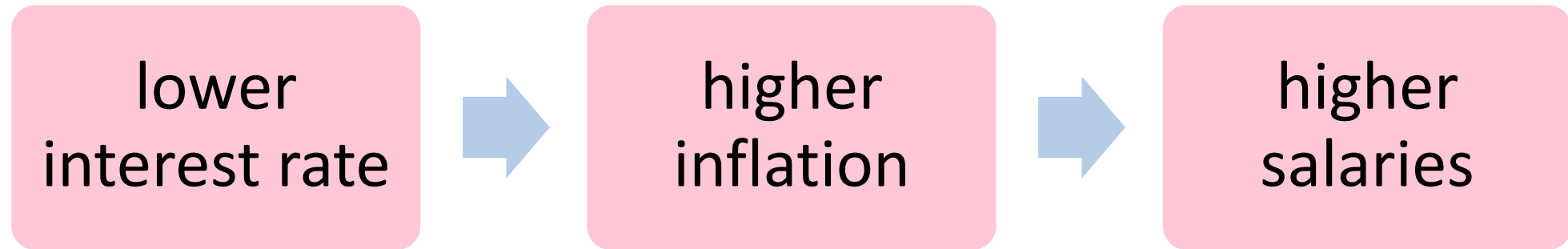
- In **cashless economies** interest rates below zero would bring wished effects to central banks: fully dependency on banks
- If people had **cash**, they would withdraw their money from bank accounts: lower dependency on banks

Intervention of Czech Central Bank

- CNB issued new CZK and massively bought EUR to decrease the CZK value
- + stimulation of economy by supporting exporters
- Cost increase for importers of goods and materials
- Citizens had more expensive vacations and goods from abroad

CNB bought 80 bln EUR during intervention from commercial banks on interbank market.

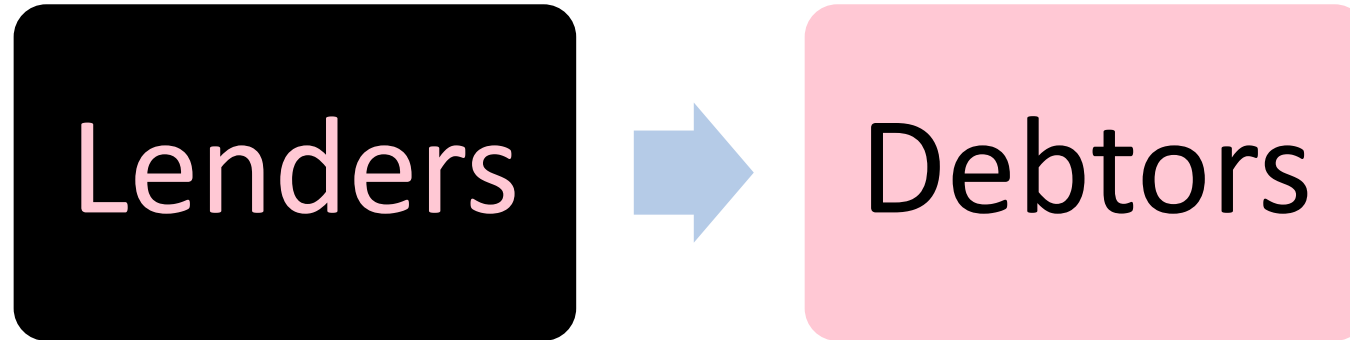
Does intervention work?



Excess Crown Liquidity

- more money in the banking system as a whole than is strictly needed
- commercial banks bought too many crowns

Wealth Transfer



Who profited from interventions?

Speculants

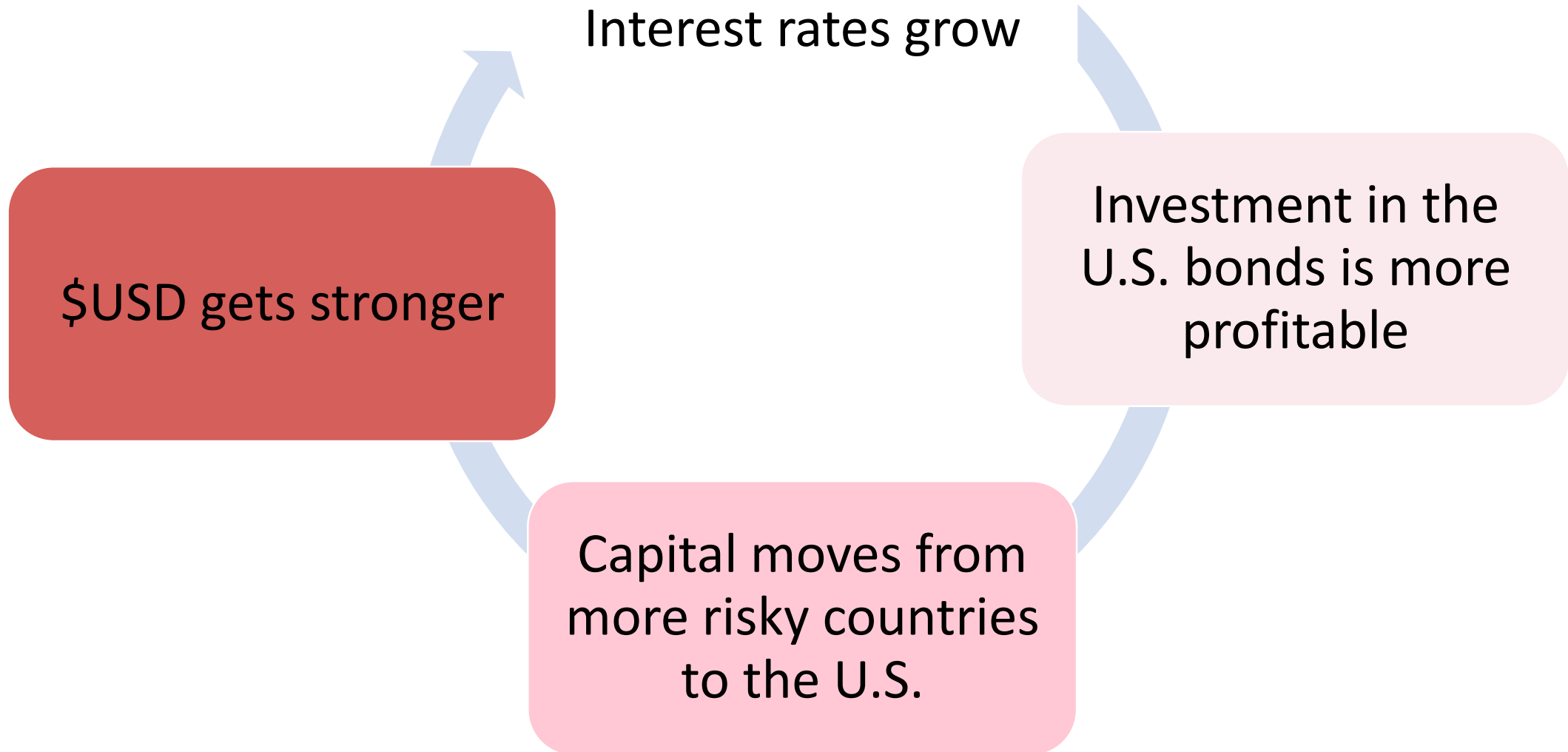
Financial institutions

Banks

Impact of Interventions on Public Budgets

- Profit of CNB is an income for the national budget.
- Interventions caused huge losses.
- Public budgets will not be supported by any profits in upcoming years.

Current Development in the U.S.



Legacies of Financial Crisis

- Financial crisis was caused by interplay of failures, not solely by individual factors; market or government
- Underestimated psychology in markets: crisis of trust
- More bureaucracy in banking sector
- Bigger role of central banks (issue of new money in unprecedented amounts, lower IRs favourable to extremely rich)
- Wealth transfer, bigger income gap, radicalization
- New approaches to economic research: behavioral economy

What to Remember

- Zero Lower Bound
- Intervention
- Crown liquidity
- Excess liquidity

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