

Economic crisis

The current financial crisis has become an earthquake to the world's economic system. Have started in the USA, it has rapidly overcome the boundaries of the States and has spread over the Europe and Asia, bringing unemployment and financial recession along. One can hardly say whether it will last long or is going to slump. The following remains obvious, if we don't want its recurrence in future, we should investigate its root causes now.

The world economic system endures times of prosperity as well as followed by inevitable declines. The circulating scheme is characterized by the rise of manufacturing and it is following recession, thus permitting to keep to the world financial and economic balance order. No one in the world was ready to take the burdens of the economic crisis on the shoulders and to resist its unpredictable consequences. In spite of the fact, almost everybody understood how important it is to examine the reasons of it.

In my opinion there are several important factors to discuss, which obviously have affected the present economic situation. First of all it is the spendthrift lending or, in other term, the so-called housing price bubble. Every family buying a house can take a loan from the bank, which should be given back. In order to return money to the bank, the family first of all should take the house it can afford. Otherwise it will not be able to pay the money back. In the recent years the prices on real estate have been so high and raising so quickly like a bubble. It has resulted in the fact that people started taking loans, which they can't pay off. Many banks' borrowers got unable to make their mortgage payments. As a result, the mortgage market was undermined.

This was just the beginning. One of the consequences was the fall of prices on real estate. The institutions and businesses depending on real estate prices or making money on real estate underwent the risk and suffered losses. To such companies belong Freddie Mac and Fannie Mae. It was the blow to the financial system in general, which led to the problems in other pecuniary stocks. This process, started with the bank system and led to the banking liquidity crisis, affected all financial and economic sectors of business all over the world.

Another reason of the present economic crisis is the unrestricted emission of American dollars. The emission of the most wide-spread world currency was strictly controlled by the government of the USA. Each dollar had gold equivalent in the gold reserve of the States. Purchasing capacity of it corresponded to the

quantities of products manufactured. That's not how things stack any more up today. As a result while the USA was loosing its positions on the world market, the dollar was weakening in the world.

To sum it up one can say that the root cause of the current economic crisis lie in the ineffective policies of the economic and financial sectors of the leading and developing countries in the world. One should take into account the root causes to oust its re-occurrence in future.