

UNIDAD DIDÁCTICA 1 (UD 1). EL LENGUAJE ECONÓMICO-FINANCIERO

TAREA 2

FICHA DE LA TAREA.

TÍTULO: Comprensión de textos semiespecializados del ámbito económico-financiero.

TEXTO 4: "Types of financial crisis".



Lectura y comprensión

Lee el siguiente texto y completa las preguntas.

Types of financial crisis

Banking crisis

When a bank suffers a sudden rush of withdrawals by depositors, this is called a **bank run**. Since banks lend out most of the cash they receive in deposits (see fractional-reserve banking), it is difficult for them to quickly pay back all deposits if these are suddenly demanded, so a run may leave the bank in bankruptcy, causing many depositors to lose their savings unless they are covered by deposit insurance. A situation in which bank runs are widespread is called a **systemic banking crisis** or just a **banking panic**. A situation without widespread bank runs, but in which banks are reluctant to lend, because they worry that they have insufficient funds available, is often called a credit crunch. In this way, the banks become an accelerator of a financial crisis.

Examples of bank runs include the run on the Bank of the United States in 1931 and the run on Northern Rock in 2007. The collapse of Bear Stearns in 2008 has also sometimes been called a bank run, even though Bear Stearns was an investment bank rather than a commercial bank.

Banking crises generally occur after periods of risky lending and heightened loan defaults. The U.S. savings and loan crisis of the 1980s led to a **credit crunch** which is seen as a major factor in the U.S. recession of 1990–91.

Speculative bubbles and crashes

Economists say that a financial asset (stock, for example) exhibits a **bubble** when its price exceeds the present value of the future income (such as interest or dividends) that would be received by owning it to maturity. If most market participants buy the asset primarily in hopes of selling it later at a higher price, instead of buying it for the income it will generate, this could be evidence that a bubble is present. If there is a bubble, there is also a risk of a **crash** in asset prices: market participants will go on buying only as long as they expect others to buy, and when many decide to sell the price will fall. However, it is difficult to tell in practice whether an asset's price actually equals its fundamental value, so it is hard to detect bubbles reliably. Some economists insist that bubbles never or almost never occur.



Black Friday, 9 May 1873, Vienna Stock Exchange. The Panic of 1873 and Long Depression followed.

Well-known examples of bubbles (or purported bubbles) and crashes in stock prices and other asset prices include the Dutch tulip mania, the Wall Street Crash of 1929, the Japanese property bubble of the 1980s, the crash of the dot-com bubble in 2000–2001, and the now-deflating United States housing bubble.

International financial crises

When a country that maintains a fixed exchange rate is suddenly forced to devalue its currency because of a speculative attack, this is called a **currency crisis** or *balance of payments crisis*. When a country fails to pay back its sovereign debt, this is called a **sovereign default**. While devaluation and default could both be voluntary decisions of the government, they are often perceived to be the involuntary results of a change in investor sentiment that leads to a sudden stop in capital inflows or a sudden increase in capital flight.

Several currencies that formed part of the European Exchange Rate Mechanism suffered crises in 1992–93 and were forced to devalue or withdraw from the mechanism. Another round of currency crises took place in Asia in 1997–98. Many Latin American countries defaulted on their debt in the early 1980s. The 1998 Russian financial crisis resulted in a devaluation of the ruble and default on Russian government bonds.

Wider economic crises

Negative GDP growth lasting two or more quarters is called a **recession**. An especially prolonged recession may be called a *depression*, while a long period of slow but not necessarily negative growth is sometimes called **economic stagnation**. Since these phenomena affect much more than the financial system they are not usually considered financial crises as such though there are clearly links between the two.



Declining consumer spendings.

Some economists argue that many recessions have been caused in large part by financial crises. One important example is the Great Depression, which was preceded in many countries by bank runs and stock market crashes. The **subprime mortgage crisis** and the bursting of other real estate bubbles around the world also led to recession in the U.S. and a number of other countries in late 2008 and 2009.

Some economists argue that financial crises are caused by recessions instead of the other way around, and that even where a financial crisis is the initial shock that sets off a recession, other factors may be more important in prolonging the recession. In particular, Milton Friedman and Anna Schwartz argued that the initial economic decline associated with the crash of 1929 and the bank panics of the 1930s would not have turned into a prolonged depression if it had not been reinforced by monetary policy mistakes on the part of the Federal Reserve, a position supported by Ben Bernanke.

Causes and consequences of financial crises

Leverage

Leverage, which means borrowing to finance investments, is frequently cited as a contributor to financial crises. When a financial institution (or an individual) only invests its own money, it can, in the very worst case, lose its own money. But when it borrows in order to invest more, it can potentially earn more from its investment, but it can also lose more than all it has. Therefore leverage magnifies the potential returns from investment, but also creates a risk of bankruptcy. Since bankruptcy means that a firm fails to honor all its promised payments to other firms, it may spread financial troubles from one firm to another (see 'Contagion' below).

The average degree of leverage in the economy often rises prior to a financial crisis. For example, borrowing to finance investment in the stock market ("margin buying") became increasingly common prior to the Wall Street Crash of 1929. In addition, some scholars have argued that financial institutions can contribute to fragility by hiding leverage, and thereby contributing to underpricing of risk.

Asset-liability mismatch

Another factor believed to contribute to financial crises is *asset-liability mismatch*, a situation in which the risks associated with an institution's debts and assets are not appropriately aligned. For example, commercial banks offer deposit accounts which can be withdrawn at any time and they use the proceeds to make long-term loans to businesses and homeowners. The mismatch between the banks' **short-term liabilities** (its deposits) and its **long-term assets** (its loans) is seen as one of the reasons bank runs occur (when depositors panic and decide to withdraw their funds more quickly than the bank can get back the proceeds of its loans). Likewise, Bear Stearns failed in 2007–08 because it was unable to renew the short-term debt it used to finance long-term investments in mortgage securities.

In an international context, many emerging market governments are unable to sell bonds denominated in their own currencies, and therefore sell bonds denominated in US dollars instead. This generates a mismatch between the currency denomination of their liabilities (their bonds) and their assets (their local tax revenues), so that they run a risk of sovereign default due to fluctuations in exchange rates. [...].

(Extraído de http://en.wikipedia.org/wiki/Financial_crisis)

1. Resume los principales conceptos abordados en el texto. ¿Qué tipos de crisis financieras menciona el texto? ¿Han estado todas ellas presentes en la crisis económica mundial que estamos viviendo en la actualidad?

2. ¿Qué diferencias existen entre los “investments banks” y los “commercial banks”?

3. ¿A qué hace referencia el concepto de “bubble” en relación con los activos financieros? ¿Podrías explicar en qué consistió la “dot-com bubble”?

4. Explica los siguientes términos y expresiones marcados en negrita en el texto:

- Bank run
- Banking panic
- Credit crunch
- Recession
- Currency crisis
- Sovereign default
- Economic stagnation
- Subprime mortgage crisis
- Leverage
- Banks’ short-term liabilities and long-term assets