Research on the International Financial Crisis Causes and the Corresponding Countermeasures

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Abstract: In this paper, we conduct theoretical analysis on international financial crisis causes and corresponding countermeasures. Financial liberalization has brought the global excess profit growth, but behind it there is no control of spontaneous errors are often ignored, endless innovation and never satisfied credit growth exacerbated the market failure and the financial fragility, prone to rentseeking behavior and regulation of interest groups, increasing the degree of risk. Too much liberalisation made the financial market incompleteness and the instability flaws exposed, the implicit threat of crisis, so how to grasp the profits and risks of balance, how to effectively deal with the financial crisis is put forward a great test of the financial regulation. Our research analyzes the corresponding issues from different levels and perspectives to find out the optimal solution and countermeasures.

Keywords: International Financial Crisis; Causes and Solutions; World Economy; Regional Economic Optimization

1. Introduction

In the first half of 2007 since the outbreak of the subprime crisis in the United States, with the nation's fifth largest investment bank bear was acquired as the turning point as triggered a global financial crisis. Embodied in the global stock market decline in stock price index in the housing market, investment banks, the commercial banks, insurance companies and the other financial institutions have failed. International economic and financial development of the real background, made the financial crisis once again become the focus of the theory and practice research. How by previous financial crisis in the process of development of the world economy to explore the guard against financial risks, dissolve the financial crisis is a priority. [1-2]

Currently, the financial crisis theory were reviewed could be summarized as the follows. (1) New western financial crisis. The Asian financial crisis shows that financial liberalization, large-scale foreign capital inflows and the volatility, financial intermediation excessive credit expansion with excess risk investment and asset bubbles, the financial intermediary such as capital adequacy ratio is low and lack of careful regulation economic phenomenon is accompanied by the financial crisis happened, thus the financial intermediaries especially bank intermediary in the process of the formation of the financial crisis plays an important role. (2) Chinese research on theory of the financial crisis. With the deepening of the financial liberalization and financial innovation, virtual economy rapid development, all kinds of financial assets as virtual economy has the characteristics of high risk, high income, it is easy to attract a large number of the money in the virtual economy to speculate, if excessive speculation will lead to the excessive expansion of virtual economy is far more than real economy growth in demand, this will lead to long-term assets such as stocks or real estate prices are rapidly expanding. (3) The currency crisis first generation and the second generation of models. The second generation currency crisis model still pay attention to economic fundamentals, but puts forward some conditions subjective expectations of public that can become a dominant factor, the behavior of the speculators caused loss of public confidence so that government failed to defend the fixed exchange rate system, the crisis will come ahead of time. In the following figure one, we demonstrate the key words of the modern financial crisis. [3]



Figure 1: The Key Words of the Financial Crisis

In this paper, we conduct theoretical analysis on international financial crisis causes and corresponding countermeasures. Looked from the present situation, the crisis is not only to hit is very wide, and fast, has spread to Europe, America, Asia, Africa and the other large parts of the world, most countries in the world are affected by the financial crisis, formed the international financial crisis. Therefore, we should have a full understanding of this.

2. Our Proposed Methodology

2.1 The Current Condition of International Financial

Represented by the international monetary fund and world bank's international financial institutions, namely the Bretton woods institutions, was founded in the early after world war ii, each have different functions: the international monetary fund to provide with the dollar as the center, to stabilize the international monetary system as the goal of the international balance of payments adjustment mechanism; The world bank provided to stabilize the European and developing countries as the goal of post-war reconstruction and the development assistance mechanism. The Bretton woods institutions for the post-war world economy developed from debris have played a positive role. After the collapse of Bretton woods system, although the Bretton woods institutions still exist, but due to the deficiency of its system design aspects, guiding ideology, difficult to adapt to the international economic and financial landscape change which can't reflect the representation of the developing countries and say with development of economic and financial globalization trend and needs of development of the world economy can't adapt to, and thus cannot give full play to its proper role among global financial and economic affairs. Fundamentally speaking, the international financial crisis is over the years, the result of the virtual economy from real economy. The economic restructuring led to the real economy of the developed countries to developing countries, formed the real economic activities in developing countries and developed countries engaged in virtual economy pattern of division of labor and exchange. The following figure two shows the financial crisis causes. [4]



Figure 2: The Financial Crisis Causes

2.2 The Global Financial System Reform

The international financial system is not simple addition of the nation's financial system, but to support global financial market and the infrastructure of the functioning of the world economy. In other words, the international financial system is a set of the rules and regulations that is applied in the global financial markets. To maintain the basic structure of existing international economic constant, but still want to some of the transformation, a series of financial activities and to trade for the reform of organization and management measures.

The management plan to avoid the international capital flow control too strict, purpose is to keep both the risk capitalist economy indispensable ingredients that does not remove the international monetary fund to provide safety net. A country's crisis will weaken its exports and capital flows to its trading partners, such traditional explain why unable to explain the spread of the Asian financial crisis will present the "domino effect". Chain through the core financial crisis on the party's financial institutions and their senior management behavior, we can found that source of crisis is financial institutions against the original intention of its own social responsibility. International financial integration is the trend of the times and in order to ensure long-term stability of the international financial market, promote development of world economy, to reform the existing international financial system is very necessary. To build global or regional international financial risk early warning mechanism is urgent. [5]

2.3 The Solutions and Countermeasures

The establishment of a new international monetary system is a long process, countries need to continue to the consultation, strengthen cooperation, when it is necessary to sacrifice their own interests in order to maximize the overall interests, in this paper as establishment of a new international monetary system put forward the following two core points. (1) The international monetary fund after completion of mechanism, shall organize establishment of a new international monetary system. Since the international monetary system is the defects caused by the financial crisis in the United States, it should be for the defects of current international monetary system reform, make it more suitable for the needs of development of current world economy. (2) Reform should start from the international basic monetary fund. As international official institutions of coordination of the international monetary system the international monetary fund should further perfect the voting rules in the first place for optimization.

3. Conclusion and Summary

In this paper, we conduct theoretical analysis on international financial crisis causes and corresponding countermeasures. With the economic globalization and the internationalization of the financial market, the existing international monetary mechanism has obviously not adapts to the new development. In face of the ongoing financial crisis, the main international monetary fund and the relevant government authorities often mistake in terms of exchange and financial operations. Countries financial experts some economists and government officials are the role of the existing international financial organization system criticism, sometimes even with existing system of maintainer form an opinion sharp opposition. Our research provides new perspective of the financial crisis.

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