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A SURVEY OF INTERNATIONAL FINAINCIAL CRISES AND THE ACTUAL FINANCIAL CRISIS

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Abstract: *This paper intends to indentify the most important international financial crises and to show the role of investors' behavior in the propagation of financial crises. Another important aspect of the paper refers to the reactions of financial markets from emerging countries and the way they can manage the actual financial crisis compare to financial markets from developed countries.*
Key words: *finance; crisis; emerging countries; investors' behavior*

1. INTRODUCTION ABOUT FINANCIAL CRISIS

Through time people learn lots of things about how to manage different situations and to find the best solution for each problem. That's why in our days we have complex technology, lots of opportunities for investment reaching the most complex financial products and also having at the same time all the information we want and need. All these sound great especially when we have an expanding economy. But things change when we no longer have to do with that situation and we are dealing with a financial crisis. For more details related to the financial crisis, I think we can say what happens in this situation. Regarding the definition of financial crises is taken into account the evolution of macroeconomic indicators, these indicators can be: inflation, unemployment and low GDP. Taking into consideration these indicators the National Bureau of Economic Research (NBER) defines crisis as "a significant decline in economic activity for several months reflected in lower GDP, lower individual income, reduce employment levels, reducing industrial production and consumption". Many economists have come up with theories about how the financial crisis develops and how it could be prevented. There is no consensus regarding the occurrence of crises, but one thing is certain and that all economists agree - the financial crisis is an event that occurs with some regularity around the world. Due to economic cyclical it could be formulated that theory of cyclical financial crises. Starting from this point we can say that there are several models that focus on the variations and periodicity of economic expansions and recessions. Among the most common models on the periodicity of business cycles we find:

- Kitchin's model which says that there is a valuation of assets once every 39 months

- Juglar's model says that a cycle of an investment in plant and equipment lasts between seven and eight years

- Kuznets's model supports a cycle of 20 years which reveals increases and decreases in the housing sector.

2. WHICH ARE THE MOST IMPORTANT INTERNATIONAL FINACIAL CRISES?

In order to identify the most important financial crises economists try to recognize patterns of those based on some models. A model of the occurrence of financial crises, which has a different approach than the above, is the H. Minsky model and refers to the boom and falls and also focuses on the episodic nature of manias and crises to come. Minsky, through its model, proposed a simplified explanation, which is especially applicable to a closed economy. His model falls within the classical economists' models, such as John Stuart Mill, Knut Wicksell, Alfred Marshall and Irving Fisher, who also focused on the volatility of credit supply. Minsky argues that the events leading to a crisis begins with the emergence of exogenous shocks that affect the macro. If the shock was large enough and deep economic prospects and opportunities of profit growth would lead to improvement in at least one important sector of the economy. Examples of such shocks occurring at the international level were highlighted by Charles Kindleberger and Robert Aliber in their book "Manias, Panics and Crashes - A History of Financial Crises." A prime example is that of the shock U.S. in 1920 when there was an expansion of automobile production, associated with highway development with much of the country electrified. Another shock occurred in the U.S. in the '90s led to the revolution in information technology and leading to lower costs of communication and control. However, Minsky's model has not been validated by all economists who studied on this regard, and is reaching his criticism. With the criticism of Minsky's model, it began to carry on research about its relevance today. The conclusion was that it can be applied in the Forex market and the periods of overvaluation and undervaluation of currencies.

One of the most important international financial crises is that the 1929 crisis which is compared to the current financial crisis. The beginning of this crisis that we find as "The Great Depression" started in the United States is associated with stock market collapse on Oct. 29, 1929 (this event is known as "Black Tuesday") and the end is associated with the beginning of the war in 1939. Causes of the crisis have been the subject for research over the years. One aspect investigated was whether the recession that occurred due to the failure of free markets or whether the cause was a failure of governments in an effort to not aggravate further bankruptcy cases occurring in the banking system, which would have led to panic and reduce liquidity.

Another major financial crisis was the Asian crisis which has spread half the countries in the world. It started in Thailand, which on July 2, 1997 declared its inability to repay foreign debt. Views on the spread of the crisis are shared between countries in trouble - Thailand, Indonesia, Malaysia and South Korea. During this crisis dominated herd behavior in the form of large loans in foreign currencies, investment in real estate speculation and reporting to the U.S. dollar value of their currencies, which led to the overvaluation of their currencies while the domestic prices of increased. This crisis could not be isolated in countries of East Asia, reaching as to affect even countries like Russia and Brazil. Spread crisis in these countries had the explanation that has spread largely because of psychological factors, because the allegations were made relating to the financial markets of these countries in the sense that they have large debts and that their currencies are overvalued relative to other currencies. These irregularities were immediately taken to market, so stock markets crashed on August 11, 1998.

Crisis we face was based on mortgage loans, and so called "subprime crisis". Alan Greenspan has defined the crisis as a "credit tsunami that occurs once a century" caused by a collapse, whose root causes are found in the U.S. housing sector. The first sector affected by this crisis was the U.S housing sector, further advancing and affecting banking and financial sectors worldwide. As a result of all rescue operations of large financial institutions followed the emergence of panic and mistrust in the capital markets as share prices have seen dramatic decreases in both the U.S. stock market and on the European and Japanese too. There followed significant reductions in consumption, the banks not to grant credit and tried to attract more liquidity and more countries have entered into a recession. The events described above have begun a series of economic and political problems in the world and continued during 2009, continuing this year and is likely to continue throughout the world and in future periods.

3. THE ROLE OF INVESTORS' BEHAVIOR IN THE PROPAGATION OF FINANCIAL CRISES AND THE REACTION OF FINANCIAL MARKETS FROM EMERGING COUNTRIES

Investor behavior, no matter what the situation is discussed - under normal or stress conditions - depends on the level of confidence in their abilities, confidence level which, unfortunately, is not correlated with investment success. Investors are convinced that they can "beat the market systematically, by making correct decisions - buy or sell at the best moments; this is common especially in circumstances where the market is reflected in a continuous growth. We can say that both, the markets and market players, should learn from history in order to give less importance to recent financial experience. Investors also believe that the decisions of other market participants are irrational, while their decisions are considered to be perfectly rational. But that rationality depends only on information available at the moment.

The logic of investor also has a large influence on decision making by simple extrapolation of past events and experiences, which dominates the memory, especially when emotions and feelings related to them were positive. When the expected results do not materialize, appears a state of emotional and psychological imbalance. This type of reaction could explain why shares of companies that do not lead to the materialization of positive expectations of investors are punished severely by the harsh reactions of sale - was also induced "herd behavior" of investors whose expectations are high because disillusionment is very high. Another aspect which is common is the fact that investors tend to imitate or adapt the behavior of social or professional group to which belong, therefore avoiding risks and individual investment positions significantly different from the others. In addition to that tendency of investors to take the behavioral aspects of other market players, an important role in determining the individually rational behavior is the market constraints. A good example in this respect is related to the fact that during the Asian crisis, great currency depreciation and stock market share price decline in Thailand has affected East Asian countries causing great losses to international institutional investors. These losses prompted investors to liquidate their holdings of shares in emerging markets to gain liquidity, pending a recovery in markets affected by this crisis. The emergence of such a crisis on the investment markets may lead to strong variations in terms of both risk and expected profits and therefore portfolio investor market is somewhat constrained by circumstances to change their investing strategy.

Emerging countries are those which have the most to lose from financial crisis. Financial markets of these countries are developing and there is a strong dependency among them and developed financial markets. As in the crisis, emerging countries are those that face with most problems at both the economic and social level due to the drastic measures they are forced to adopt aiming to revive the economy.

4. CONCLUSIONS

In association with the propagation of financial crises the degree of integration of markets is clearly important. Financial crises usually are triggered by several factors, which lead to multiple causes. Among the determinants are found two types of factors: internal and external. Regarding the level of development of markets, only some of these factors have an outstanding importance. Among the important factors can be mentioned: economic cyclicality, macroeconomic instability in the financial system, etc.. If a country has a high degree of integration with global financial markets or financial markets of countries in a region are closely integrated, then financial markets are mechanisms that make the price of assets in those markets and other economic variables evolve in the same direction. So, the greater the degree of integration of financial markets the more extensive is the effect of contagion.

The analysis of investors' behavior can be reflected the attitude of system investment decisions. Researchers disagree that investors often behave irrational leading to market inefficiencies and securities will be valued incorrectly. Analysts wonder, however, whether these theories of behavioral finance can be used to manage money effectively.

Further study will be extended to an empirical level in order to highlight the evolution of financial markets in developing countries based on investor behavior during crisis.

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