# Global financial crisis

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## 1. Introduction

The most recent developments in economy are a clear indicator of many changes, which are a result of this high rate pacing, which also demonstrates as such. Market economy processes occur as a result of intertwining of many potential technological and human factors, thereby creating a system of numerous divergences and turbulences. Economics, a social science, is characterised with movements from a system to another system, and is harmonized with elements or components which have impacted the development and application of economic policies as a result. This example can be illustrated with the passing from a commanded system (centralized) to a self-governing (decentralized) system, while the movement from a system to another is known as transition. Such transition in its own nature bears a number of problems of almost any kind (political, economic, social, etc.), and is characterised with differences from a country to another.

Financial crisis is a phenomenon consisting of a perception of economic policies and creation of an economic and financial stability in regional and global structures. From this, one may assume that each system has its own changes in its nature, and as a result of these changes, we have the crisis of such a system. Even in the economic field, if we look closely, we have such a problem, where development trends both in human and technological fields have created a large gap between older times and today, thereby creating dynamics with a high intensity of action. If we dwell on the problem, and enter into the financial world, we can see that the so-called industrialized countries have made giant leaps in development, while countries in transition have stalled in many fields, as a result of a high rate of corruption and unemployment in these countries, and obviously these indicators are directly connected, thereby stroking the financial system in

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these countries.

Corruption is an element, which directly and indirectly influences the process of attracting foreign investment, and further influencing the growth of unemployment, and in turn expanding the financial crisis, where finances are already fragile.

In the following sections, we will elaborate on the financial crisis in a global aspect, the impacts of this crisis in economic development, and the role of stock exchange in finance, thereby creating a multi-dimensional horizon of the problem.

## 1. What is a financial crisis?

The term financial crisis is used to describe a wide series of situations in which several financial institutions or instruments lose a large part of their value in an immediate manner[1]. Many economists have suggested their theories on how financial crisis occur and develop, what are their causes and effects, and the ways to prevent them. Still, scholars have yet to reach a consensus on these issue, while financial crisis will continue to be a common phenomenon of the world economy.

## 2. A historical background

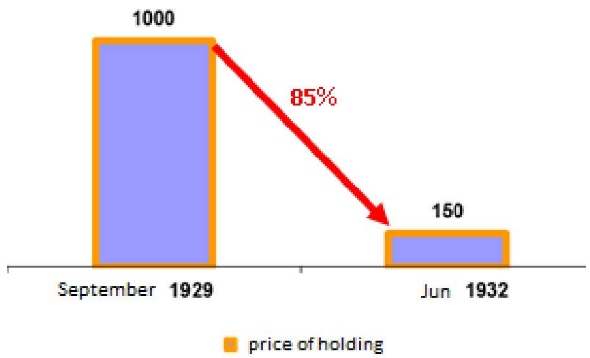
Undoubtedly, in the last two years, the American crisis had taken the headlines of papers, journals, news editions, etc. The conviction which was vivid only until several months ago that the American economy is the most stable one, and it cannot be subject to a crisis, a conviction which, amongst others, sources from the lack of serious crisis since 1929, has left the room for the concern that this crisis might be the mother of all: a global economic crisis. On the other hand, not all know about American economy. Even those who know about it, were surprised by the most recent crisis.

### 2.2 1929 Crisis

Economics recognizes the stages of economic stalling and those called an economic expansion. All economies undergo their stages of ups and downs. Nevertheless, crisis are rarer, and they discover deficiencies of the economic or financial system of a country. The largest crisis in the American history was recorded in 1929, and it was termed the “Great Depression”. In that period, the value of total shares in the New-York Stock Exchange fell from 80 to 50 Billion Dollars within several hours. From September 1929 and until June 1932, the market declined with 85 %, which means that a share worth 1000 Dollars in a

[1] Prof. Dr. G.Luboteni, “Corporate Finance” (Financat e korporatave), 2007 Prishtina, pg. 11

share market peak was only worth 150 Dollars in the lowest point of the market recorded in 1932[2].




In 1933, when the crisis approached to an end, the Dow Jones Index marked a level identical to 1900. The peak was recorded on 29 October 1929, when the New York Stock Exchange recorded what was called the "Black Tuesday", when the stocks fell, thereby marking the beginning of an unprecedented crisis in the New World. The market fall is nothing more than an immediate fall of share values, which means also a loss of savings or all investment in the stock market. The falling of the NYSE took around a month, only to restore to the pre-crisis period, while it took NYSE years to recover. The Great Depression is also remembered for a massive unemployment rate it brought. For 10 years, since 1931 and until 1940, the unemployment rate recorded an average of 18,8%, fluctuating from a lower margin of 14,3 % in 1937 to the highest peak of 24,3 % in 1933[3].

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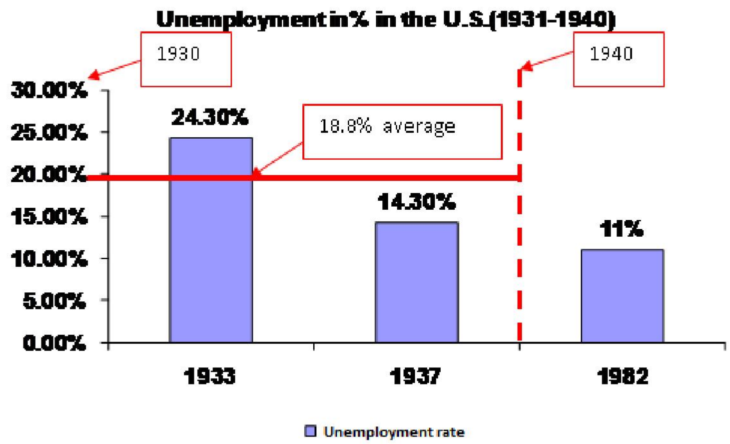
[2] R.Dornbush & S.Fisher, "Macro-Economics (Makroekonomia), Publishing House "Dituria 2000", 2003 Tirana, pg. 414

[3] Ibid




For further information, the highest unemployment rate after the II World War, marked in 1982, was 11%[4]. The reasons of the economic crisis in the 30-ies are numerous, but the main one remains the sinking of American manufacturers in debts. Many industrialists borrowed money for purchasing machinery, many farmers bought tractors, and there was truly an economic boom in the 20-ies. But all this production, the increase of prices, the decline of purchasing demand associated with the export declines, rendered the manufacturers unable to repay the loans, therefore the economic collapse begun. This made the money stocks declining with around 4% from 1929 until 1930, and then in 1931 and 1932, it continued to decline rapidly, while the economic decline continued until April 1933[5]. The falling money stack caused an extensive series of bankruptcy of banks. Banks went bankrupt because they did not have the reserves to cover for the cash withdrawals from clients, and by bankruptcy, they destroyed the deposits, and as a result, they lowered further the money stocks[6]. One must underline that the US of that time had embraced the concept of “laisser-faire”, which means that the state would not intervene in economy.

The exit from the crisis of the 30-ies was made possible by something called the “New Deal”[7]. One must say that this program aimed for an exit strategy from the crisis and economic stability. The Roosevelt Administration reorganized FED, while a Federal Deposit Insurance Corporation (FDIC) was established. Amongst other goals, the New Deal had set about reforming the banking system, generating new jobs, a new economic strategy for the industry,

[4] R.Dornbush & S.Fisher, “Macro-Economics (Makroekonomia), Publishing House “Dituria 2000”, 2003 Tirana, pg. 414
[5] Ibid, pg. 415
[6] Ibid, pg. 416
[7] R. Dornbush & S.Fisher, “Macro-Economics (Makroekonomia), Publishing House “Dituria 2000”, 2003 Tirana, pg. 417

support for agriculture, etc. Thanks to this program, America was able to enter the Second World War as an economic power, and prevail as a victor, and become what we know today, the single world's superpower.[8] Although in 1930, America was not yet recognized as an economic power, or at least it was not what we know it to be today, the impact of the American crisis was felt globally.

To avoid crisis like the Great Depression, with an initiative of the United States of America, after the Second World War, institutions were created, such as the World Bank, the International Monetary Fund, etc[9].

### 2.3 Crisis of 2008

It would take a more specialized analysis to elaborate the details of the most recent crisis of the American economy. Nevertheless, the crisis that was recorded initially in the real estate sector (construction, real estate transfers) is rooted in the financial system and the manner of financing of the American economy. The American economy is the only economy, which uses the stock exchange as a key source. Unbalanced as it is, financing by the stock exchange has its own flaws.

## 3. How did the financial crisis begin?

The most recent crisis is being used as an excuse to embark in a global campaign against market economy and free entrepreneurship, and as a motif to justify a greater state intervention in the economy. The free market is now considered as the main cause of this crisis, while in fact, the main cause was the state intervention. The state intervention in the US was undertaken in two forms[10].

- The first form was through Federal Reserves, which lowered the interest rate from 6.5% to 1% in January 2001. It kept this level until June 2004, thereby stimulating a massive borrowing wave.[11]
- The second form was the instrumentalization of two government sponsored companies Fannie Mae and Freddie Mac, to offer insurance for home loans.[12]

### 3.1 The reasons behind the crisis

Studies by "American Enterprise Institute" or "Cato Institute" have shown that since 1992, the US Congress had been pushing these two companies

[8] Ibid, pg. 418
[9] Ibid, pg.
[10] www.bqk-kos.org
[11] http://www.federalreserve.gov/monetarypolicy/openmarket.htm
[12] Ibid.

(Fannie Mae and Freddie Mac) to concentrate on low and middle-income borrowers. In 1996, it was demanded that these borrowers make for 42% of the volume of loans insured, while this rate was increased to 50% in 2000 and to 52% in 2005.[13] These two companies had cultivated a rather suspicious relation with the government, ensuring double benefit, on one side there were numerous sponsorships these companies provided to various politicians, while on the other hand, there was another impact consisting of increased satisfaction in voters, by increasing the number of people buying houses on loans. The latter is a tactic called "third way", since it is a typical social policy of shelter, by regulation, guidance or orientation of private operators in the market. Hence, not a centrally controlled public property as promoted by classical socialism, but a social policy by controlling private companies. In return, politicians closed their eyes before the multi-billion scandals of Fannie Mae and Freddie Mac, they allowed them to have capital assets of up to 2%, while the banks were required to have around 8%, and they offered legal facilities to them, such as for example, the removal of taxes on loan interest[14]. This political support even had created the impression that if anything would take the worst scenario, the state would jump to rescue Fannie Mae and Freddie Mac, which encouraged even more the refractory loaning practices.

The rules of Western systems allow the amount of loans issued to the market by a bank to be 10 times larger than obligatory reserves deposited in the central bank. For some specific assets, reserves required may be lowered to zero[15].

In the concrete case, larger companies such as Fannie Mae, Freddie Mac, and some others like Lehman Brothers and Bear Stearns, in their accounting statements, held assets of up to 30 times more than their base investment value ("equity"). The other part of asset purchase was covered in rotating loans, termed "commercial paper", which they trade in the Wall Street or by borrowing from the Government (FED), thereby creating balance sheet leverage.

In an ideal flow of the system, for example, Lehman Brothers would obtain short-term unbounded loans, for example every day, every week, in a lower interest rate, and in the meantime, it would fund complex long-term borrowing products, built upon contracts for house purchases (mortgages) in a higher interest rate, thereby ensuring a consistent profit[16].

The concentration of a very large amount of funds on the estate market, due to the expansion of borrowing and influence of Fannie Mae, Freddie Mac et al, brought to an artificial and speculative increase of prices of American houses, which doubled in their price only during the period between 1997-2005.

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[13] http://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932010
[14] Ibid
[15] www.bqk-kos.org
[16] Ibid

Below, we will provide the price fluctuations in real estate in the USA during the period of 1963-2009 (Source: http://www.census.gov/const/uspriceann.pdf)

**3.1 What are the dimensions of the financial crisis?**

The basic financial instrument, by means of which the financial market grew uncontrollably and zealously, is the financial derivates[17]. Using these innovative products, American banks "repackaged" bad mortgage loans, which were given a first class credit rating (hence a speculative rating), which they resold to European investors[18]. Thus, the market of financial derivates is the key segment of the growth of the global financial baloon.

According to estimates, the value of valid contracts in this field by the end of 2007 had reached the exceptional figure of 600 Trillion Dollars, which is a value 11 times larger than the value of world production. 10 years earlier, the value of this financial segment was "only" 75 Trillion Dollars.[19]

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[17] http://www.bankofalbania.org/web/pub/2_zhvillimet_ne_mjedisin_e_jashtem_2571_1.pdf, pg. 6

[18] http://www.bankofalbania.org/web/pub/2_zhvillimet_ne_mjedisin_e_jashtem_2571_1.pdf, pg. 12

[19] http://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932010

**Median and Average Sales Prices of New Homes Sold in United States**

**Annual Data**

| Period | Median | Average |
|---|---|---|
| 1963 | $18,000 | $19,300 |
| 1964 | $18,900 | $20,500 |
| 1965 | $20,000 | $21,500 |
| 1966 | $21,400 | $23,300 |
| 1967 | $22,700 | $24,600 |
| 1968 | $24,700 | $26,600 |
| 1969 | $25,600 | $27,900 |
| 1970 | $23,400 | $26,600 |
| 1971 | $25,200 | $28,300 |
| 1972 | $27,600 | $30,500 |
| 1973 | $32,500 | $35,500 |
| 1974 | $35,900 | $38,900 |
| 1975 | $39,300 | $42,600 |
| 1976 | $44,200 | $48,000 |
| 1977 | $48,800 | $54,200 |
| 1978 | $55,700 | $62,500 |
| 1979 | $62,900 | $71,800 |
| 1980 | $64,600 | $76,400 |
| 1981 | $68,900 | $83,000 |
| 1982 | $69,300 | $83,900 |
| 1983 | $75,300 | $89,800 |
| 1984 | $79,900 | $97,600 |
| 1985 | $84,300 | $100,800 |
| 1986 | $92,000 | $111,900 |
| 1987 | $104,500 | $127,200 |
| 1988 | $112,500 | $138,300 |
| 1989 | $120,000 | $148,800 |
| 1990 | $122,900 | $149,800 |
| 1991 | $120,000 | $147,200 |
| 1992 | $121,500 | $144,100 |
| 1993 | $126,500 | $147,700 |
| 1994 | $130,000 | $154,500 |
| 1995 | $133,900 | $158,700 |
| 1996 | $140,000 | $166,400 |
| 1997 | $146,000 | $176,200 |
| 1998 | $152,500 | $181,900 |
| 1999 | $161,000 | $195,600 |
| 2000 | $169,000 | $207,000 |
| 2001 | $175,200 | $213,200 |
| 2002 | $187,600 | $228,700 |
| 2003 | $195,000 | $246,300 |
| 2004 | $221,000 | $274,500 |
| 2005 | $240,900 | $297,000 |
| 2006 | $246,500 | $305,900 |
| 2007 | $247,900 | $313,600 |
| 2008 | $232,100 | $292,600 |
| 2009 | $216,700 | $270,900 |

### 3.2 How was the crisis managed?

Instead of taking the responsibility for the crisis, and withdraw from the market, the USA and other countries did the opposite, and they only dived further in the market economy, thereby transferring hundreds of billions of taxpayers' money. Governments would have to allow the market to do its own job, by resettling resources from non-productive or inefficient sectors, like the part of the banking sector that dealt with the real estate loans, to more productive sectors. Therefore, the market should have been given a change to normalize relations between savings, borrowing and productivity. Instead of allowing the healthy shearing the market would have undertaken on the rotten branches of economy, governments are only extending (and not cutting) rotten branches' lives[20].

Central Banks have orchestrated several joint operations, by injecting billions of dollars, Euros, pounds and yen in the global financial system since the beginning of financial trouble. Only in the last week of September 2008, 250 Billion dollars had entered banking systems. Regulatory authorities of financial markets, SEC in the USA, and FSA in the Great Britain, have prohibited short selling of shares of hundreds of companies, mainly banking and financial companies, hoping that would reduce the decline of stocks. Short selling is a sale of shares of a company by borrowing shares from the banks which keep these shares on behalf of shareholders. If the price of shares falls, the persons involved in short selling get a profit.

Nevertheless, the largest intervention occurred in the last week of September 2008, when the administration of former President George W. Bush gave an absolute authority to the Treasury Department to purchase up to 700 Billions of Dollars in assets and mortgages left to the "hands" of banks. This Government provided saving guarantee for the Wall Street will raise the ceiling of the national American debt to 11.3 Trillion Dollars, thereby reducing the potentials for (macro)economic manoeuvres of the Government. The deficit of the Government for 2009 was planned to get to the amount of 500 Billions, but with this project, that amount will go beyond a trillion. This capital expenditure of 700 Billion Dollars, explained in simple terms, will be close to the cost of occupation of Iraq from the beginning of the war, and it will cost around 2000 Dollars per each American[21].

## 4 Stock Exchanges

The stock exchange is, first and foremost, attended by persons which are persistently attentive of their business and are well-familiarized with their details; though, those with a deeper knowledge on political economics are less in number, and as a result, they pay less attention to finance as a subject of

[20] www.bqk-kos.org

[21] http://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932010

science. They only take account of immediate effects of past (random) events, rather than their deeper consequences[22].

The most known stock exchanges are the American stock exchanges (NYSE, AMEX), London (LSE), Tokyo (TSE), Frankfurt (FSE), Hong Kong (HKSE),etc.

### 2.1. *New York Stock Exchange-NYSE*

The New York Stock Exchange is the most famous and the largest stock market in the world, expressed in market capitalization (total value of shares in the market, which derives from common shares issued, multiplied by current share price)[23].

Membership in a stock exchange is beneficial, because it allows for trading privileges, but these advantages are covered by some compensation one has to pay for membership fees. To be a member of the NYSE, some financial and personal criteria are to be satisfied, as set forth by the stock market, such as the following: net minimum assets, profits, capitalization and number of shares in public ownership.

#### 2.1.1. Dow Jones Industrial Average

Is the best known and the oldest New York Stock Index, which bears the name of its ideator. This index is known by its abbreviation DJIA (Dow Jones Industrial Average). For the first time, it took account of shares of 12 industrial companies. In 1928, this index was expanded to include shares of 30 most important companies of the NYSE. These companies are selected by the “The Wall Street Journal”.

The historical quotes of the average index of Dow Jones is presented below.

[22] Dr. S. Merovci, “Markets and Financial Instruments” (Tregjet dhe instrumentet financiare), published by the University of Prishtina, 2004 Prishtina, pg. 226

[23] Dr. S. Merovci, “Markets and Financial Instruments” (Tregjet dhe instrumentet financiare), published by the University of Prishtina, 2004 Prishtina, pg. 228

| Dow Jones Industrial Average | 10:21 am 07/23/2009 ET | | | | |
|---|---|---|---|---|---|
| LAST | CHANGE | % CHANGE | OPEN | HIGH | LOW |
| 8999.23 | 117.97 | 1.33% | 8,882.31 | 9,003.69 | 8,866.44 |

**Historical Quotes**
Find Dow Jones Industrial Average's closing price

Date: 04/23/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 04/23/09 | 7957.06 | 7,903.29 | 8,015.36 | 7,762.80 | 324,319,900 |

**Historical Quotes**
Find Dow Jones Industrial Average's closing price

Date: 07/23/2008

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/23/08 | 11632.38 | 11,606.89 | 11,820.21 | 11,410.02 | 263,619,000 |

**Historical Quotes**
Find Dow Jones Industrial Average's closing price

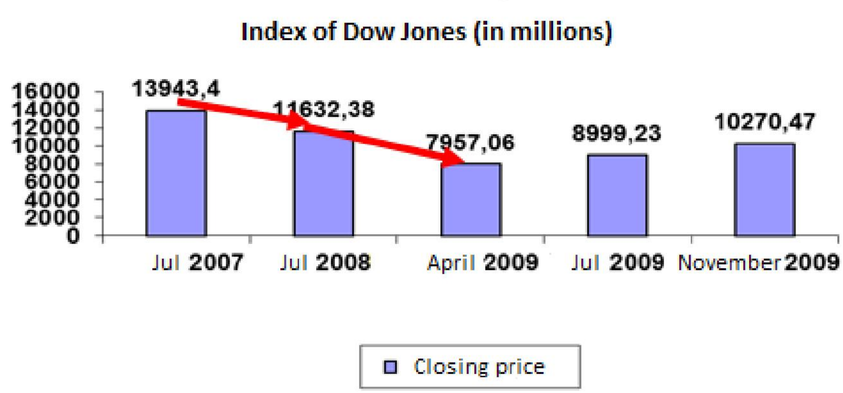
Date: 07/23/2007

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/23/07 | 13943.42 | 13,914.24 | 14,039.59 | 13,819.54 | 233,554,800 |

Source: www.wsj.com

On 11/13/2009, this index was 10270.47 Million $, or 73 Million $ (0.72%) more than the previous day[24].

Graphically, this index is presented below.




[24] www.wsj.com

### 2.2. The London stock Exchange-LSE

The London Stock exchange undergoes continuous reform, while the last reform it went under in 1986 with the *Big Bang*, which went beyond some of the most traditional settings[25].

The difference between the London LSE and the NYSE stands in the use of the account period. The market year in London is divided in series of accounts, which are normally 10 working days, ending on Mondays. Shares bought during an account will not be paid until the end of the accounting period, the account day which is usually the second Monday after the last day of agreement signed on sale of shares[26].

### FTSE 100 Index

This index provides the movement of prices of 100 shares quoted in the London LSE.

[25] Dr. S. Merovci, "Markets and Financial Instruments" (Tregjet dhe instrumentet financiare), published by the University of Prishtina, 2004 Prishtina, pg. 239

[26] Ibid. pg. 241

**Historical Quotes**

Find FTSE 100 Index's closing price

Date: 7/24/2006

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/06 | 5833.90 | 5,719.70 | 5,835.20 | 5,719.70 | 0 |

**Historical Quotes**

Find FTSE 100 Index's closing price

Date: 7/24/2007

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/07 | 6498.70 | 6,617.70 | 6,617.70 | 6,498.70 | 0 |

**Historical Quotes**

Find FTSE 100 Index's closing price

Date: 7/24/2008

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/08 | 5362.30 | 5,458.70 | 5,463.70 | 5,345.10 | 0 |

**Historical Quotes**

Find FTSE 100 Index's closing price

Date: 7/24/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/09 | 4576.61 | 4,556.14 | 4,603.21 | 4,536.45 | 0 |

**Historical Quotes**

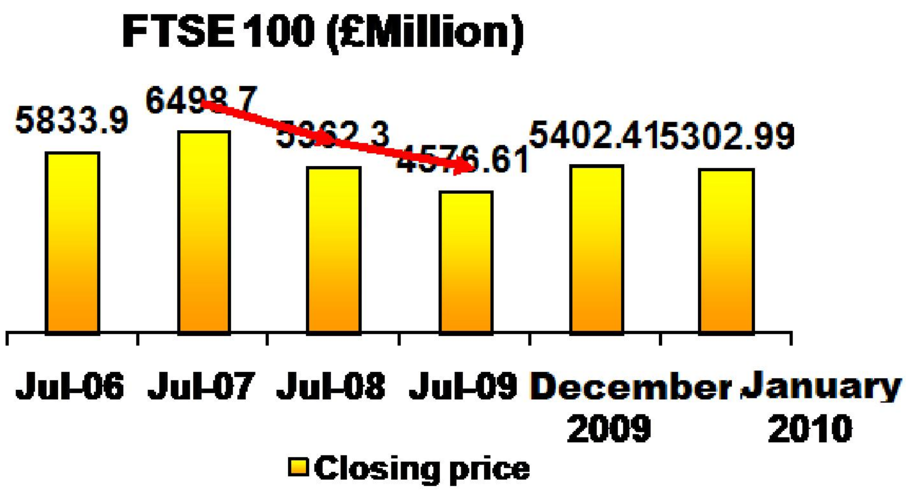
Find FTSE 100 Index's closing price

Date: 12/24/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 12/24/09 | 5402.41 | 5,373.62 | 5,402.41 | 5,367.84 | 0 |

FTSE 100 Index As of 1/22/2010 VIEW OTHER INDEXES Select an Index

| LAST | CHANGE | % CHANGE | OPEN | HIGH | LOW | 52-WEEK HIGH | 52-WEEK LOW |
|---|---|---|---|---|---|---|---|
| 5302.99 | -32.11 | -0.60% | 5,334.77 | 5,345.60 | 5,253.04 | 5,600.48 (01/11/2010) | 3,460.71 (03/09/2009) |




## 2.3. The Tokyo Stock Exchange

The Tokyo Stock Exchange, due to a rapid development and large investment by Japanese corporations, has raised itself to be one of the most important stock exchange markets in the world. Today, several hundreds of millions of shares are traded between Japanese and foreign investors. Since the World War II, the Tokyo SE has operated as a private company, as a non-profitable organization, according to the Law on Stocks and Bonds, while being monitored by the Ministry of Finance.[27]

While shares in the UK and USA have different nominal values, in Japan, almost all shares have a nominal value of 50 Yen (half a dollar)[28].

For the TSE, the index "***Nikkei Stock Average***" is calculated and published to provide for price movements of 225 shares quoted in this stock market. This index was issued for the first time in May 1946, by the economic paper "Nikon Keizai Shimbun"[29].

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27 Dr. S. Merovci, "Markets and Financial Instruments" (Tregjet dhe instrumentet financiare), published by the University of Prishtina, 2004 Prishtina, pg. 238

28 Ibid, pg. 239

29 Prof. Dr. A.Pano & E.Gjoni, "Financial Markets" (Tregjet financiare), Publishing House Albin, 2007, Tirana, pg. 269

**Historical Quotes**
Find Japan NIKKEI AVERAGE INDEX(225)'s closing price

Date: 24/7/2006

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/06 | 14794.50 | 14,700.58 | 14,851.91 | 14,560.67 | 0 |

**Historical Quotes**
Find Japan NIKKEI AVERAGE INDEX(225)'s closing price

Date: 24/7/2007

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/07 | 18002.03 | 17,998.76 | 18,018.94 | 17,906.11 | 0 |

**Historical Quotes**
Find Japan NIKKEI AVERAGE INDEX(225)'s closing price

Date: 24/7/2008

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/08 | 13603.31 | 13,411.28 | 13,603.31 | 13,393.57 | 0 |

**Historical Quotes**
Find Japan NIKKEI AVERAGE INDEX(225)'s closing price

Date: 24/7/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/09 | 9944.55 | 9,909.40 | 9,950.04 | 9,863.87 | 0 |

**Historical Quotes**
Find Japan NIKKEI AVERAGE INDEX(225)'s closing price

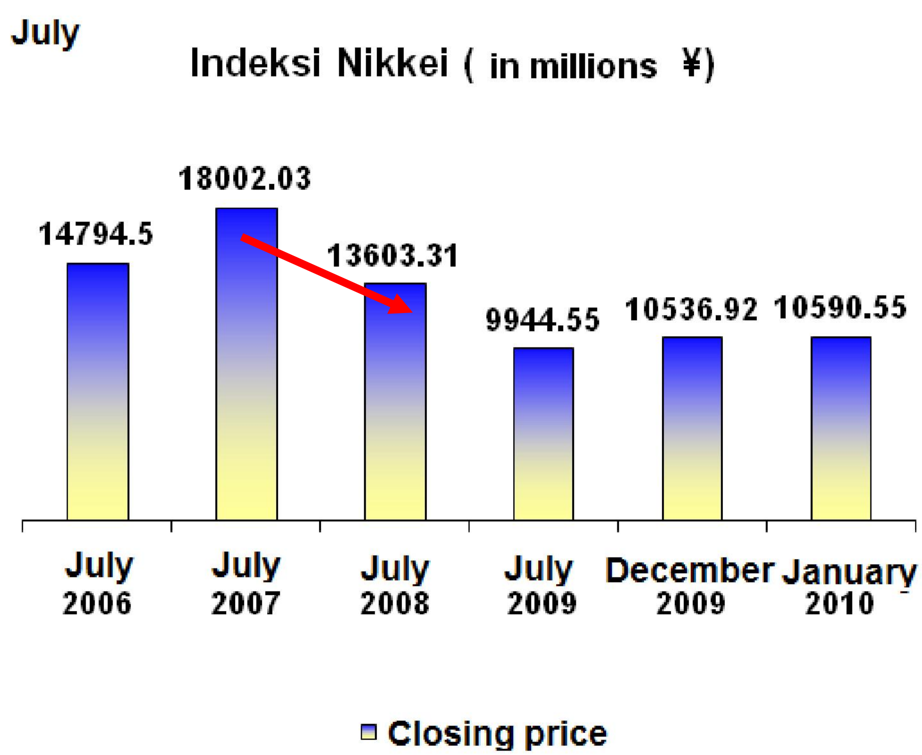
Date: 24/12/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 12/24/09 | 10536.92 | 10,413.37 | 10,558.41 | 10,413.37 | 0 |

Burimi: wsj.com

Japan NIKKEI AVERAGE INDEX(225) As of 1/22/2010 VIEW OTHER INDEXES Select an Index

| LAST | CHANGE | % CHANGE | OPEN | HIGH | LOW | 52-WEEK HIGH | 52-WEEK LOW |
|---|---|---|---|---|---|---|---|
| 10590.55 | -277.86 | -2.56% | 10,740.21 | 10,768.07 | 10,528.33 | 10,982.10 (01/15/2010) | 7,021.28 (03/10/2009) |




**2.4. Frankfurt Stock Exchange**

Is the most important national stock market in Germany, and amidst the most important stock markets in Europe and the World. This market is called the **Deutche Borse**[30]**.**

For the Frankfurt Stock Exchange, the index **DAX** (Deutche Aktieinddex) is calculated, providing for the movements of prices of 30 best and most important shares of this market[31].

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30 Prof. Dr. A.Pano & E.Gjoni, "Financial Markets" (Tregjet financiare), Publishing House Albin, 2007, Tirana, pg. 259

31 Ibid., pg. 269

**Historical Quotes**
Find Germany DAX(TR)'s closing price

Date: 7/24/2006

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/06 | 5578.05 | 5,460.12 | 5,582.06 | 5,460.12 | 0 |

**Historical Quotes**
Find Germany DAX(TR)'s closing price

Date: 7/24/2007

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/07 | 7806.79 | 7,916.36 | 7,933.58 | 7,806.23 | 0 |

**Historical Quotes**
Find Germany DAX(TR)'s closing price

Date: 7/24/2008

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/08 | 6440.70 | 6,546.17 | 6,577.10 | 6,415.31 | 0 |

**Historical Quotes**
Find Germany DAX(TR)'s closing price

Date: 7/24/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 07/24/09 | 5229.36 | 5,233.85 | 5,301.91 | 5,202.02 | 0 |

**Historical Quotes**
Find Germany DAX(TR)'s closing price

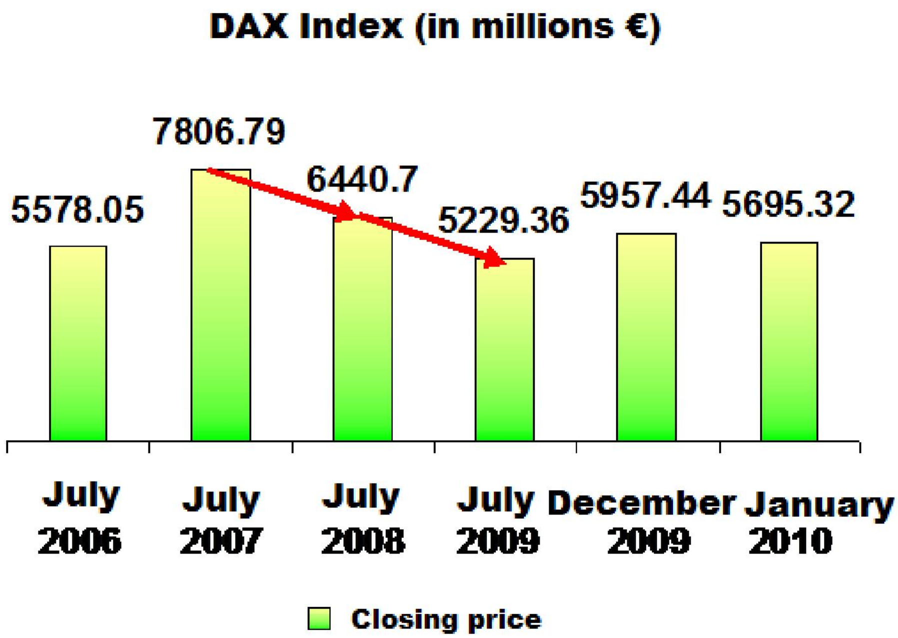
Date: 12/23/2009

| Date | Closing Price | Open | High | Low | Volume |
|---|---|---|---|---|---|
| 12/23/09 | 5957.44 | 5,966.11 | 5,988.28 | 5,935.14 | 0 |

Burimi:wsj.com

Germany DAX(TR) As of 1/22/2010 VIEW OTHER INDEXES Select an Index

| LAST | CHANGE | % CHANGE | OPEN | HIGH | LOW | 52-WEEK HIGH | 52-WEEK LOW |
|---|---|---|---|---|---|---|---|
| 5695.32 | -51.65 | -0.90% | 5,735.68 | 5,740.87 | 5,639.49 | 6,094.26 (01/11/2010) | 3,588.89 (03/09/2009) |




**3. Why did the crisis expand to other countries?**

As a result of a high rate of integration of financial systems of the world, the financial crisis was quick to expand to other countries.[32]

Furthermore, inter-banking financing in longer terms almost ceased to exist. As a result, a large number of banks found themselves in dire financial difficulty, thereby quaking the general confidence on the markets. Within a short period, problems in the financial sector began reflecting in the real economic sector. This happened mainly due to the constringency of business and household loans, by causing a stalling of economic activity, and creating high rates of uncertainty in capital markets.

The economic stalling in the USA brought lower rates of imports from the emerging world, which had a dire impact on their economies[33]. Also, this stalling also influenced unemployment, lower rates of sales and purchase, damaged consumer confidence, which ultimately brought a lower rate of expenditure in wider markets and a direct pressure on the value of real estate assets.

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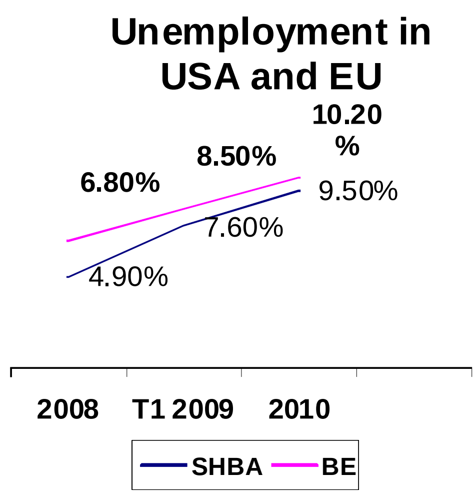
32 http://www.federalreserve.gov/newsevents/speech/bernanke20070517a.htm

33 Ibid

### 3.1. Consequences of the crisis

The recession that hit developed countries was characterised with a decline of 12% in industrial production, the largest decline of the last 18 years, which was associated with a considerable growth of unemployment rates. For example, the USA recorded the highest increase of the unemployment rate in 25 years, with 5.1 million jobs lost – mainly in sectors of services, processing industry, and construction. In the first months of 2009, the unemployment rate marked an increase of 7.6%, compared to 4.9 percent one year before. Similar properties of recession were seen also in the EU, where the unemployment rate by the end of 2008 was increased to eight percent, in comparison to 6.8% which was recorded one year earlier. Unemployment rates continued growing also in the first months of 2009, and this trend was expected to continue to 2010. Some estimates have suggested that the unemployment rate by the end of 2010 is expected to get to 9.5 percent in the USA and 10.2 percent in the EU, and that period is expected to record a recovery of the economy at a global scale[34].



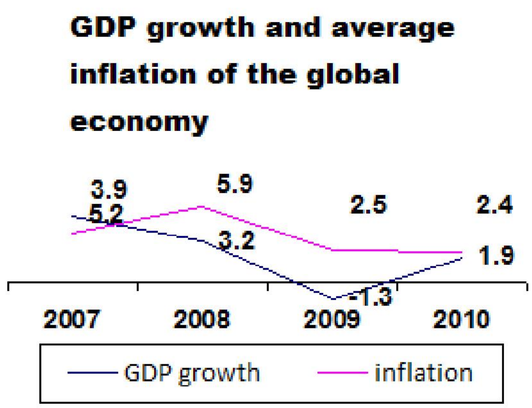

In a document called “Global Economic Forecast, Crisis and Recovery” of April 2009, the International Monetary Fund had stated that the world’s economic growth rate for 2009 is expected to be negative, at a rate of 1.3 percent. Developed economies will shrink for 3.8 percent (for the first time since the WWII), while economies in developing countries will only grow for 1.6 percent. Under the influence of measures for facilitating financing, and support provided by incentive monetary and fiscal policies, the global economy

[34] Raporti vjetor i BQK, http://www.bqk-kos.org/Publications/BQK%20Raporti%20Vjetor%202008.pdf

is expected to begin a gradual recovery in 2010, when the economic growth is expected to record a rate of 2 percent[35].

| | Rritja e PBB_së | | Parashikim | | Inflacioni mesatar vjetor | | Parashikim | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | 2010 |
| EKONOMIA GLOBALE | 5.2 | 3.2 | -1.3 | 1.9 | 3.9 | 5.9 | 2.5 | 2.4 |
| Vendet e zhvilluara | 2.7 | 0.9 | -3.8 | 0.0 | 2.2 | 3.4 | -0.2 | 0.3 |
| ShBA | 2.0 | 1.1 | -2.8 | 0.0 | 2.9 | 3.8 | -0.9 | -0.1 |
| Japonia | 2.4 | -0.6 | -6.2 | 0.5 | 0.0 | 1.4 | -1.0 | -0.6 |
| Eurozona | 2.7 | 0.9 | -4.2 | -0.4 | 2.1 | 3.3 | 0.4 | 0.6 |
| Mbretëria e Bashkuar | 3.0 | 0.7 | -4.1 | -0.4 | 2.3 | 3.6 | 1.5 | 0.8 |
| Vendet në zhvillim | 8.3 | 6.1 | 1.6 | 4.0 | 6.4 | 9.3 | 5.7 | 4.7 |
| Evropa Qendrore dhe Lindore | 5.4 | 2.9 | -3.7 | 0.8 | 6.1 | 8.0 | 4.6 | 4.2 |
| Kina | 13.0 | 9.0 | 6.5 | 7.5 | 4.8 | 5.9 | 0.1 | 0.7 |
| India | 9.3 | 7.3 | 4.5 | 5.6 | 6.4 | 8.3 | 6.3 | 4.0 |
| Brazili | 5.7 | 5.1 | -1.3 | 2.2 | 3.6 | 5.7 | 4.8 | 4.0 |
| Meksika | 3.3 | 1.3 | -3.7 | 1.0 | 4.0 | 5.1 | 4.8 | 3.4 |

Source: Bank of Albania

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35 Financial Stability Report of the National Bank of Albania, http://www.bankofalbania.org/web/Raporti_i_Stabilitetit_Financiar_2008_5462_1.php

**4. Conclusion**

The most recent financial crisis proclaims a vicious range of economic problems, where it has been proven with the above that unemployment in harmony with inflation record a growth trend, the economic recession is also a problem which derives as a result of these two factors. Any tendency of changing strategy consists in the creation of new problems and their management manners, based on potential capacities possessed by a country or a state.

Industrialized states have some advantage in overcoming the crisis, when compared with countries in transition, due to the fact that industrialized states possess a stronger financial and technological capacity. The USA is a leader of global processes, which consists in creating an order based on a capitalist spirit, or a free market economy, guiding processes towards economic development. In this context, a strong role is played by human resources, which use the technology possessed. Another property of the global financial crisis is migration of populations from the Asian countries towards Western countries, an example being the case of Indians and their role in development of information technology. Further, investments by multi-national corporations in countries such as China and India due to a high population mass and cheap labour in these countries, all these factors have a positive impact for countries like China and India, due to the reduction of unemployment rates as a result of investment. If one stops and analyses the crisis in countries in transition, the problem comes in another field, and as such, it demands a multi-faceted approach, by taking into account social, economic, technological and political factors, and creation of a financial system where corruptive affairs must be small in comparison to those these countries are facing. A result of these negative phenomena, we have a reflection onto the growth of unemployment rates and deepening of financial crisis in these countries.

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