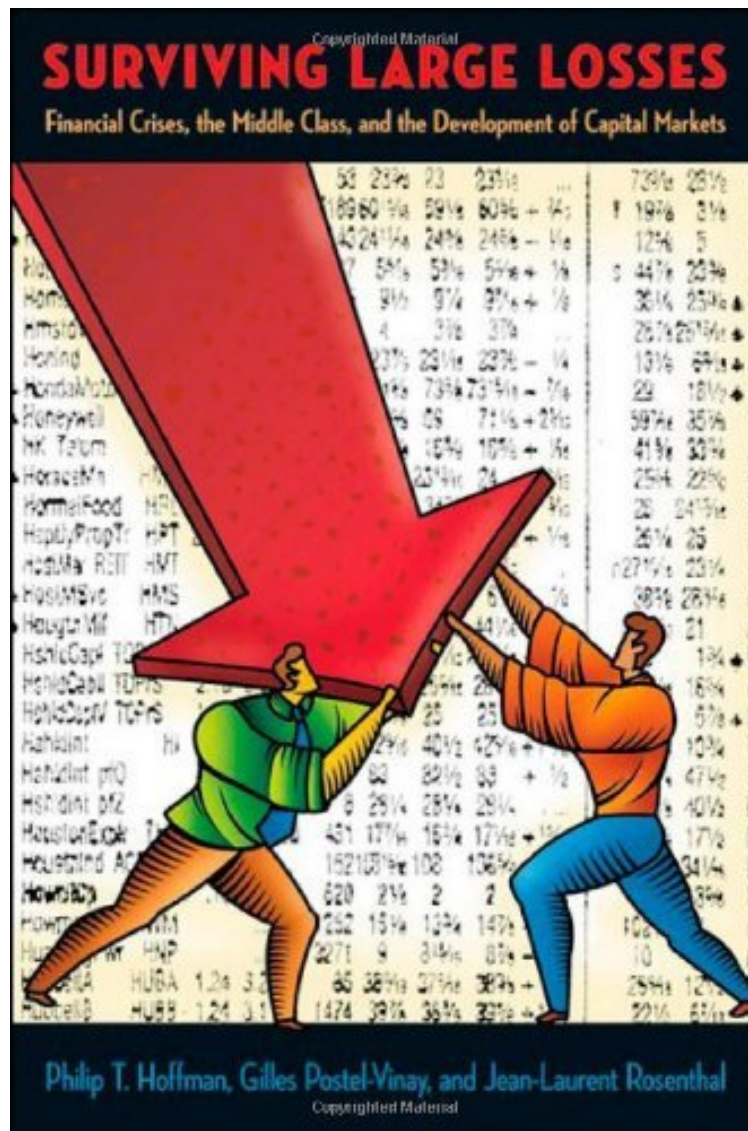


(Download pdf) Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets

Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets

Philip T. Hoffman

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Philip T. Hoffman : Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets before purchasing it in order to gauge whether or not it would be worth my time, and all praised Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets:

0 of 0 people found the following review helpful. Interesting to make the middle class role a focus in financial crises By Phil O. This book predates the 2008 crash, but seems prescient in the way it mapped out this sort of downturn,

and especially the problems for the various social classes that have followed it. There is a clear, cogent description of what the poor, the middle classes, and the rich seek and expect from financial systems, and how they fare when things get tough. The middle class, in a way I hadn't seen elsewhere, is shown as a seeker of financial innovation, and a stabilizer. Other societies are compared. I especially appreciate the absence of a partisan or demonizing tone here. This is a great overview of big macro swings and their impacts on various players, all the way through business and financial cycles. It is a quick read, with nice clear prose, and highly rewarding. It loses nothing from its preceding the latest swoon.

8 of 8 people found the following review helpful. Valuable look at why some countries' financial systems work

By Robert Ray

The authors take a look at how financial systems develop, frequently under the spur of financial crisis. Their arguments are supported by many interesting historical examples. The book begins with a look at how crises develop, from government predation and/or asymmetrical information (the seller knowing more than the buyer for example). It then reviews how different political systems respond to crises. They also show that a well functioning financial system requires the right level of government (enough debt to get a bond market started, but not so much as to encourage the politicians to steal to pay it off, as in Argentina), a large enough middle class to provide a market for financial products and to discourage too much theft by government (the poor have no assets, the rich can afford to set up their own financial programs), and how the costs of information tie this together. The book ends with a look at some current situations, particularly microcredit and the looming problems of pensions and health care for a rapidly aging world with a static or declining population. Their analysis is more theoretical than Kindleberger's 'Manias, Panics, and Crashes' and is focused on the structure of financial systems and how crises change them (not on panics per se). Their discussion on pensions theorizes that privatization can not work, but doesn't discuss current private pension programs (in Chile for example). And the discussion of the role of asymmetric information mostly ignores the role of public manias. The authors used Enron as an example as an example of asymmetric information (since management's financial reports clearly did not reflect reality) but a look at the published 2000 Annual Report shows that in 2000 Enron was only marginally profitable, with a return on average equity of 8.6 % and a return on assets of 1.8 %. Operating earnings for 1998, 1999, and 2000 were 4.4 %, 3.1 %, and 1.9 % of sales. Yet the high price for the stock was over 4 times book value and 40 times earnings. Clearly a combination of ignorance and insanity was involved (the ignorance extended to the media; Fortune magazine proclaimed Enron as 'the most innovative company in the world' without wondering how anybody so wonderful had such a lousy return on investment). Overall an very interesting and valuable look at financial systems, and how they develop and change within a country.

1 of 2 people found the following review helpful. "Those who don't learn from history...."

By James L. Mizell

Those of us who have labored in the investment industry for decades witness repetitious institutional and individual behavior associated with economic and financial market cycles. That we don't dwell on the causes of these recurring cycles, as we move on to the next trade, doesn't reflect a lack of curiosity. Therefore, although "Surviving Large Losses" was written for an academic audience, it wasn't surprising to witness the broader interest in this book emerge during the "Financial Meltdown of 2008" and its aftermath. Written in language that a lay person can understand, it still becomes obvious that these scholars performed arduous research spanning centuries and continents to make their points so persuasively. It's understandable that scholars of Financial Crises become more prolific as new crises emerge. As such, the body of knowledge is passed among scholars from crisis to crisis throughout history, as it should be. I'm grateful that "Surviving Large Losses" found its way to me, as well. I can't say that reading this book will allow me to "escape" the sting of financial crises in the future. But, the accessibility of this lucid analysis did provide therapeutic reading for me in the aftermath of this most recent crisis. Hopefully, it can provide diversion for others, lay and scholarly readers alike, in the next one as well.

Financial disasters often have long-range institutional consequences. When financial institutions--banks, insurance companies, brokerage firms, stock exchanges--collapse, new ones take their place, and these changes shape markets for decades or even generations. *Surviving Large Losses* explains why such financial crises occur, why their effects last so long, and what political and economic conditions can help countries both rich and poor survive--and even prosper--in the aftermath. Looking at past and more recent financial disasters through the lens of political economy, the authors identify three factors critical to the development of financial institutions: the level of government debt, the size of the middle class, and the quality of information that is available to participants in financial transactions. They seek to find out when these factors promote financial development and mitigate the effects of financial crises and when they exacerbate them. Although there is no panacea for crises--no one set of institutions that will resolve them--it is possible, the authors argue, to strengthen existing financial institutions, to encourage economic growth, and to limit the harm that future catastrophes can do.