Commentary
Volume 12:01, 2024

Journal of Global Economics

ISSN: 2375-4389

Open Access

Evidence of the Global Financial Crisis's Systematic Contagion Effects from the Largest Advanced and Emerging Equity Markets in the World

Hexin Rafia*

Department of Management, University of New Brunswick, Fredericton, NB E3B 5A3, Canada

Introduction

The Global Financial Crisis (GFC) of 2008 was a seismic event that reverberated across the world, impacting both advanced and emerging equity markets. This crisis, rooted in the collapse of the subprime mortgage market in the United States, quickly evolved into a global phenomenon with systematic contagion effects. This essay will delve into the evidence of how the GFC's contagion spread through the largest advanced and emerging equity markets, exploring the interconnectedness and interdependence that characterized this crisis. The origins of the Global Financial Crisis can be traced back to the housing bubble in the United States. The widespread issuance of subprime mortgages, bundled into complex financial products, created a fragile financial system. When the housing market began to decline in 2006, mortgage-backed securities lost their value, leading to a domino effect across financial institutions globally [1].

Description

The epicentre of the crisis, the United States experienced a collapse of major financial institutions like Lehman Brothers. The impact extended beyond the financial sector, affecting the broader economy. The stock market, particularly the Dow Jones Industrial Average, witnessed a steep decline, signalling the severity of the crisis. The contagion spread rapidly to European equity markets. Financial institutions across the continent faced liquidity challenges, with major banks requiring government bailouts. Stock exchanges such as the London Stock Exchange and Euronext recorded significant declines, reflecting the interconnectedness of global financial markets. Japan, though geographically distant from the epicentre, was not immune. The Tokyo stock exchange experienced sharp declines as global demand for Japanese exports weakened. The interconnectedness of the global economy became evident as even distant markets were affected [2].

China, one of the largest emerging markets, felt the impact through trade channels. As demand for Chinese exports dwindled, manufacturing and export-oriented industries faced a downturn. The Shanghai Stock Exchange recorded substantial losses, highlighting the vulnerability of emerging markets to external shocks. Other major emerging economies like Brazil and India faced challenges as well. The decline in global demand led to reduced commodity prices, affecting economies heavily dependent on exports. Stock markets in Sao Paulo and Mumbai experienced significant declines, revealing the interdependence between emerging and advanced economies. The GFC underscored the interconnectedness and interdependence of global financial markets. Financial products, such as mortgage-backed securities, had been widely distributed, creating a web of dependencies. The collapse of Lehman Brothers triggered a chain reaction, exposing the vulnerability of institutions worldwide to the risks inherent in complex financial instruments [3,4].

Governments and central banks worldwide responded with unprecedented monetary and fiscal measures. Interest rates were slashed, liquidity injections were made, and stimulus packages were implemented to stabilize economies. Multilateral institutions like the International Monetary Fund (IMF) played a crucial role in providing financial assistance to affected countries. The GFC prompted a revaluation of regulatory frameworks. The need for enhanced risk management, transparency, and oversight became apparent. Regulatory reforms, such as the Dodd-Frank Act in the United States and Basel III internationally, aimed to strengthen financial systems and prevent a recurrence of such a crisis [5].

Conclusion

In conclusion, the evidence of systematic contagion effects from the Global Financial Crisis on the largest advanced and emerging equity markets is abundant. The interconnectedness and interdependence of these markets became evident as the crisis spread globally. The aftermath led to significant policy responses, regulatory reforms and lessons learned about the fragility of the financial system. Understanding the dynamics of the GFC provides valuable insights for policymakers, investors and financial institutions to navigate and mitigate future systemic risks. The aftermath of the global financial crisis left a lasting imprint on both advanced and emerging economies. The recession that ensued led to a prolonged period of slow economic growth, high unemployment and increased public debt. While advanced economies embarked on extensive quantitative easing programs to stimulate their economies, emerging markets faced the challenge of adjusting to reduced global demand and capital outflows. Advanced economies, particularly those in Europe and the United States, faced the daunting task of rebuilding their financial sectors and restoring consumer and investor confidence. The prolonged economic downturn resulted in a sluggish recovery, with some countries experiencing "jobless recoveries." The scars of the crisis lingered in the form of increased income inequality and a more cautious approach to financial risk.

Acknowledgement

None.

Conflict of Interest

There are no conflicts of interest by author.

References

1. Bae, Kee-Hong, G. Andrew Karolyi and Renee M. Stulz. "A new approach to measuring financial contagion." *Rev Financ Stud* 16 (2003): 717-763.
2. Bago, Jean-Louis, Koffi Akakpo, Imad Rherrad and Ernest Ouedraogo. "Volatility

***Address for Correspondence:** Hexin Rafia, Department of Management, University of New Brunswick, Fredericton, NB E3B 5A3, Canada, E-mail: hexin@rafia.ca*

Received: 21 December, 2023, Manuscript No. economics-24-127190; **Editor Assigned:** 23 December, 2023, PreQC No. P-127190; **Reviewed:** 06 January, 2024, QC No. Q-127190; **Revised:** 11 January, 2024, Manuscript No. R-127190; **Published:** 18 January, 2024, DOI: 10.37421/2375-4389.2024.12.448

spillover and international contagion of housing bubbles." *J Risk Financ Manag* 14 (2021): 287.

3. Gajurel, Dinesh and Akhila Chawla. "International information spillovers and asymmetric volatility in South Asian stock markets." *J Risk Financ Manag* 15 (2022): 471.
4. Gurdgiev, Constantin and Conor O'Riordan. "A wavelet perspective of crisis contagion between advanced economies and the BRIC markets." *J Risk Financ Manag* 14 (2021): 503.
5. Xu, Guoxiang and Wangfeng Gao. "Financial risk contagion in stock markets: Causality and measurement aspects." *Sustainability* 11 (2019): 1402.

How to cite this article: Rafia, Hexin. "Evidence of the Global Financial Crisis's Systematic Contagion Effects from the Largest Advanced and Emerging Equity Markets in the World." *J Glob Econ* 12 (2024): 448.