

# Financial Development and Economic Growth. Financial Crises. FIN 204 Lecture 7.1.

Petar Stankov

`petar.stankov@gmail.com`

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- 1 Financial Development and Economic Growth
- 2 A Theory of Financial Crises

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Can financial markets cause problems to the production side of the economy?



What is a financial crisis?

## Financial Crisis

**Financial Crisis:** Major disruptions in financial markets that are characterized by sharp declines in asset prices and the failures of many financial and nonfinancial firms

What causes financial crises?

- ① adverse selection, moral hazard
- ② sharp increases in interest rates
- ③ increases in uncertainty
- ④ asset market effects on balance sheets
- ⑤ problems in the banking sector
- ⑥ government fiscal imbalances

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# How does a financial crisis develop?

