# Financial Development and Economic Growth. Financial Crises.

FIN 204 Lecture 7.1.

Petar Stankov

petar.stankov@gmail.com

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### Outline

1 Financial Development and Economic Growth

2 A Theory of Financial Crises

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Financial markets affect the goods and services produced. How?

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

## Financial Crises and Aggregate Economic Activity

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
- sharp increases in interest rates
- increases in uncertainty
- asset market effects on balance sheets
- problems in the banking sector
- government fiscal imbalances

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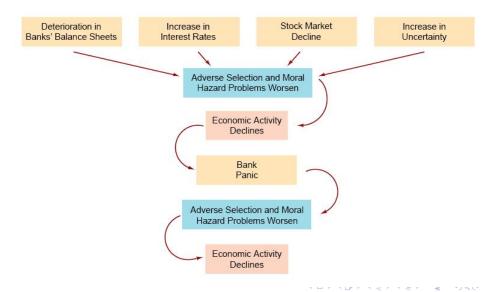
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## How does a financial crisis develop?



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