Abstract

The current view defines financial crisis as the collapse of the financial asset market. It is said to be triggered when asset markets no longer validate expectations of continuously rising returns on financial assets. Invariably, financial crises have involved the banking systems. Signs of the crisis are said to be: (a) large economic imbalances, particularly significant current account deficits; (b) asset price inflation; (c) rising leverage; and (d) slowing pace of economic growth. The consequences of financial crisis are considered to be: (a) a large reduction in income and employment; (b) a substantial rise in the growth of public debt; and (c) a prolonged period of recovery. There is now a consensus that the current global financial crisis was triggered by the collapse of asset prices in the sub-prime mortgage sector of the US financial sector, which then became the epicentre of the global crisis. For this reason, analysis of the crisis has to start with the financial structure of the latter system and the conditions that led to the crisis.


Turgeon, Lynn (1996), Bastard Keynesianism (Westport, CT: Praeger).

Financial crisis: risks and lessons For Islamic Finance. Loosened capital requirements for large investment banks. As a result Figure 6: Root of the Recent Global Financial Crises. Those unhealthy practices lead to nationalizations of a number of banks by the governments in the US, the UK, Europe and a number of other countries. In consequence, the creditors became uncertain with the situations and sought for protection against default by buying derivatives like Credit Default Swaps (CDSs). Mirakhor, Abbas and Krichene, Noureddine (2009): The Recent Crisis: Lessons for Islamic Finance. Published in: IFSB 2nd Public Lecture on Financial Policy and Stability (2009): pp. 1-92. Preview. PDF MPRA_paper_56022.pdf Download (1MB) | Preview. Abstract. The current view defines financial crisis as the collapse of the financial asset market. It is said to be triggered when asset markets no longer validate expectations of continuously rising returns on financial assets. Invariably, financial crises have involved the banking systems. Signs of the crisis are said to be: (a) large economic imbal