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Exploring The Roots Of Economic Crises: A Comparative Study Of Global Recessions

Madhhur Jain
Neerja Modi School

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I. Introduction

The subject of economic recession[1] is one that is frequently discussed at political gatherings, press conferences, and educational institutions; yet, the general public is unaware of the implications and repercussions that these recessions have on their daily lives, nor of the causes of these recessions. The average individual is always the one who is most at risk from economic effects, whether they are felt only for their country or for the entire world community. The major economic downturns, including the financial meltdown of 2008, the huge Asian-Pacific crisis of 1997, Argentina's prolonged economic crisis, turmoil in North Africa, and Nigeria's recession brought on by COVID-19, have all been examined in the current research.

Trust and confidence play a very crucial role in economics. Whole economics works on the trust and confidence model where the most basic action of movement of money from one individual to another is made on the basis of either trust or confidence. If either of them is missing from any one individual of the economy then it can lead the economy to turmoil.

International trade has played a pivotal role in making this world a global village. International trade has boosted various economies around the globe. However, it has also brought in a marginalizing factor which is called Exchange rate crises[2]. Exchange rate crises played a major role in The Great Asian Pacific crises on 1997.

Political instability of a country also plays a vital role resulting in crises. When a group/individual comes to power they try to mold economic policies of their nation according to their political benefits which usually leads a country to turmoil.

Sometimes economic crises are also a result of some factors which are beyond human control such as a pandemic. Pandemics not only leave a great impact on human beings, but on economies too. Covid-19 is an example of such factors.

The aim of the present paper is to analyze several economic recessions in order to identify the primary causes of economic downturns. In addition to enlightening readers about the causes of these specific recessions, this research paper will provide a concise synopsis of the various economic instruments that have the potential to effect economies. Numerous research studies on the subject of economic recessions have been published up to this point, but very few of them are able to unite various economic recessions under a single heading related to a specific cause of such crises. Through this paper an attempt is made to embark a journey to dwell into different economic recessions and crises to find out what were the reasons which led to these recessions and try to find commonalities between them.

The study paper's primary objectives are to pinpoint the characteristics that all recessions, no matter how diverse, have in common with one another. The following phase involves classifying the many recessions that have occurred globally based on shared characteristics. The final phase involves devising strategies to mitigate the impact of upcoming economic downturns. Apart from this a major emphasis has been given to trust-confidence model in this paper.

The paper is designed in the following. Section 1 incorporates Introduction; Section 2 lays the review of literature; Section 3 presents the methodology of the paper; Section 4 contains the explanation; Section 5 concludes and summaries the paper.

[1] Economic recession - An economic recession can be defined as a sustained period of negative growth in the real GDP of a nation with Increase in the Unemployment rate.

[2] Exchange Rate Crises - A significant drop in a nation's currency's value is what triggers a currency crisis. One unit of one currency no longer buys as much as it once did in another due to exchange rate fluctuations brought on by this value reduction, which in turn has a detrimental impact on an economy.

II. Literature Review

The research scope for this paper is to study major recessions or economic shocks which different countries faced and how some of these shocks led world to turmoil. The major shareholders in this research paper are people and firms from different nations including the US, Argentina, Thailand, China, Indonesia, South Korea, Nigeria, Egypt, Libya and Tunisia.

A number of intricately connected factors, including loose monetary policy, global imbalances, erroneous risk assessments, and inadequate financial regulation, led to these crises. After reviewing the relevant literature some of the major commonalities and effects were found which have been mentioned as follows.

Firstly, in economics, confidence and trust are extremely important. The foundation of economic transactions lays in the trust and confidence concept, according to which the most fundamental financial transaction between two people is made based on trust or confidence. The economy may experience instability if any one of these is absent from any one person. This was something which was seen in 2008 crises where lack of trust between regulators, bankers, and common public led to the crises. (Earle, 2009)

A staggering question arises: why were these stakeholders like bankers, regulators were so much interested in this job. Then the answer is simple: all this was to spread the belief that all was good in the economy, to convince people to either invest in the market because people were not very keen to invest in the stock market after the IT bubble burst in early 2000's. Not only this they were also convinced to take up mortgage loans at low interest rates, this was done because both banks and Investment banks came up with a new idea to increase investors' money in the bonds in which they invested in.

Apart from trust and confidence, the stock market plays an important role in the economy, it cannot be isolated from not only a country's economy but from its impact on the international economy too. We have seen how stock market downfalls and crises lead to not only economic depression in that country but to all other countries connected to it through trade, treaties or even through movement of people.

This may be observed from what happened in the economic crisis of 2008 as when the stock market crashed people panicked and sold all of their stocks creating more hegemonies condition in the market, the reason is simple that when stock market crashes people most of the times lose their confidence and get into a situation where they panic due to which there is no sentiments left in the market and in the economy, hence as a result it moves towards a fall in the economy (Earle, 2009; Verick, 2010).

Secondly, loose Monetary policies put forward by central banks resulted in great economic crises around the globe including the ones in Thailand which resulted in Asian Crises of 1997-1998, and even Argentina's long driven crises is a result of this intricacy. For instance, Thailand lost its importance in the Asian markets because of two major blows by their government and central bank. First was that they had a fixed exchange rate for a long time but then in 70's they thought to make a shift from this policy and shift to market value rate due to which when the currency faced its real value, on the first day itself it's value dropped by 70 per cent.

The second major blow was when they opened themselves to world institutes and corporations originally from Thailand relentlessly took loan from foreign institutes, due to which their debt increased by 3 times of the previous statistics. This created a motion and a sentiment of misery and crisis among the Japanese companies who were considering Thailand as their prior option to invest in and henceforth had to now move to China around 1997 (Lightner, 2007; Nam, Num & Kim, 2008)

Thirdly, long term political instability also results in economic crises as no foreign investor finds it safe to invest in a particular nation. Political stability is something of utmost importance in economics, because it gives assurance to not only people from that country but from other nations too, that it is safe to invest in this economy. The reason behind the same is that people always want to make their investments in those areas which are more stable and can guarantee them safer returns too.

This was observed in Argentina's case: when long term political instability led to economic crises due to the failure of government to come up with a strong economic policy, (Perry & Servén, 2003; Crafts, 2017).

It was not just limited to Argentina; the North African region also faced a similar crisis due to political instability. The countries which were majorly impacted were Egypt, Tunisia, and Libya. As these countries had an autocratic regime in power, which faced a lot of protests from the common man, foreign investors did not believe that their money is safe in these countries. Hence there was very less Foreign Direct Investment due to which there was a surge in unemployment rate, and inflation.

Fourthly, certain extraordinary events beyond human control, such as pandemics and wars, can also trigger an economic downturn. Although these events are infrequent and unpredictable, they can have a profound impact on the economy. Examples include pandemics like COVID-19 and Russia-Ukraine wars.

Major research gaps which were identified from the literature review are firstly not many studies have been conducted where different recessions have been analyzed at a common platform. Secondly, a sprinkling of studies has been undertaken which aim at finding common traits in different recession occurred around the world. Lastly, scarcely any studies have been conducted to identify the major factors which may cause future recessions.

III. Methodology

The present paper is a case base study of several other papers from various other domains of economics like behavioral economics, developmental economics, macroeconomics and international economics. The paper tries to identify the major causes of various crises and tries to club various crises which have occurred due to the similar reasons. The common causes identified for various economic crises were trust and confidence model, exchange rate ambiguity, political instability, and some special events.

The selected countries for this study were chosen because, historically, each of them has had a robust economy with consistent and steady development. Firstly , it was believed that investing in the US real estate market was among the safest choices available, but inconsistencies there caused it to collapse. Secondly, Thailand was seen to be the safest place for Japanese overseas investors to put their money; nonetheless, errors on the part of the central bank there led to the 1997 Asian-Pacific crisis. Thirdly, Argentina's economy was historically highly strong due to its meat export industry; but, as a result of continuing wars in Europe, these exports declined, negatively impacting the Argentine economy and leading to political instability starting in the late 18th century. Fourthly, prior to COVID-19, Nigeria's economy was developing at the highest rate in Africa. However, the epidemic halted this progress and sent the country's economy into decline, with unemployment soaring.

IV. Explanation

The economic recessions faced around the world can be caused due to different factors such as systematic failure, uncontrollable human behavior, incentives to take high risks, regulatory failure, and some special events such as pandemic. However, the present study highlights some of these causes as follows.

Trust and Confidence Model

Trust and confidence model is the bedrock on which our economic system works. A economic system works on the basis of trust between the payee and the payer when there is a monetary transaction involved.

Trust, confidence, and regulators

Chairman Greenspan remained skeptical of laws and regulations aimed at fostering confidence because he believed that market performance depended on the trust that existed between people and institutions. The great majority of transactions in a free society where people' rights and obligations rule must be voluntary, which naturally requires faith in the word of those we conduct business with—who are, for the most part, strangers. For instance: "It's amazing how much faith we place in the pharmacist to fill the prescription that our doctor has prescribed. or the confidence we place in automakers to operate their cars as certified. We are not idiots. We rely on our trading partners' self-interest to uphold and preserve their reputation for providing high-quality goods and services. Reputation and the trust it fosters have always appeared to me to be the core attributes required of competitive markets. Only a small portion of the daily operations in the marketplace may, at most, be regulated by laws. The ability of a country to do commerce is visibly weakened when trust is lost. Oops... A significant reluctance to lend to banks and other financial institutions throughout the last year resulted from a lack of confidence in the accuracy of their accounting records in the context of insufficient capital. Credit has frozen as a result. Eventually, however, trust will resurface as investors cautiously return to the market. History informs us that a financial and economic revival begins at that moment. It will probably happen sooner rather than later. Because of human nature, resurrection will occur in either scenario. Keep in mind that Greenspan blamed erroneous accounting records for the loss of confidence, which is a factor. This decision was crucial because it influenced Greenspan's response to the crisis. He saw it as a self-correcting trust issue that will be fixed when investors progressively get over their concern. Had he characterized the issue as one of confidence, he would have needed to push for measures intended to reassure lenders of their repayment. That's the route that Chairman Bernanke has selected.

Unlike Greenspan, Bernanke believed that confidence rather than trust was the secret to a successful market. This is seen in the disparate methods of crisis management employed by Treasury Secretary Paulson and Bernanke. Similar to Greenspan, Paulson saw the crisis as a matter of trust. Paulson begged Congress to trust him with $700 billion in his first three-page rescue proposal, promising to use it to purchase bad securities from banks. Congress rejected this plan and Bernanke opposed it. A different strategy, one centered on direct involvement and including the government purchasing stock in the main banks and insuring loans and deposits, was advocated by Bernanke. He stated that "intervention to protect the public interest is not only justified but must be undertaken forcefully and without hesitation when financial stability is broadly threatened." In keeping with his confidence-based strategy, Bernanke highlighted the actions that will be done to safeguard the interests of taxpayers. "Americans can be confident that every resource is being brought to bear to address the current crisis: historical understanding, technical expertise, economic analysis, financial insight, and political leadership," he said, outlining his technical rather than ideological approach to the situation. In a further demonstration of his non ideological, technical approach, Bernanke stated in testimony before Congress that he supported the idea of a fiscal stimulus package, which the Bush administration rejected.

The contrast between the two Federal chairman, Greenspan and Bernanke, highlights the distinctions between approaches to the crisis that are based on confidence and those that are based on trust. These distinctions are also evident in the differing stances adopted by the Securities and Exchange Commission Chairman, Christopher Cox. Above all, the SEC is an agency of law enforcement, as emphasized by Cox. In other words, the SEC's operations are purely conformance-based, depending on regulations, rules, and procedures as well as record keeping and accounting. It also assumes that the values of those it supervises and themselves are different rather than comparable as the crises was approaching But prior to the crisis, Cox's leadership of the SEC was characterized by "a faith that Wall Street's financial interests coincided with Washington's regulatory interests," rather that by confidence.Cox was only able to see the information and regulatory shortcomings that contributed to the crisis after it had already occurred, looking back from the middle of the crisis. In his testimony before a congressional committee, Cox stated unequivocally that "large swaths of our market have been sorely lacking in transparency." By now, it should be abundantly obvious that the market cannot effectively punish or price systemic risk that cannot be detected. Furthermore, it is no longer acceptable. He claimed to have discovered "that voluntary regulation does not work. "Credit default swaps, which may be utilized as synthetic alternatives to regulated securities and have significant, even manipulative, impacts on regulated markets, are just too important to let uncontrolled. There is too much risk.

Trust, Confidence, and Banks

Lenders used to physically examine prospective borrowers and make unique assessments of their creditworthiness in the earlier, more straightforward days of banking. J. P. Morgan's 1912 statement before a congressional committee, "A man I do not trust could not get money from meon all the bonds of Christendom," serves as an example of those bygone days. Following Morgan's remarks, the majority of bankers shared his need for firsthand knowledge, although they were probably more interested in collateral than in character. But even before the financial crisis of 2008, mechanized, impersonal methods of determining asset values and creditworthiness had supplanted human contact and individual judgments. A recent economic analysis notes that bankers were making judgments "without knowing everything known by the structures of the securities they were purchasing" at the time of the boom. These investors most likely depended on ratings and on recurring relationships with bankers. Investors ultimately depend more on their relationship with the product seller and less on the structure and basic information since they lack the capacity to individually assess such complex arrangements. Actual information is replaced with agency ties. Buoyed by the bubble's euphoria, trust had taken the place of confidence. While large earnings ought to indicate high risk, high levels of trust result in low risk perception. Reliability and low perceived risk were quickly replaced by mistrust and terror when the bubble burst and banks began collapsing. While individual banks recognized their own assets were worth far less than they were ready to admit, banks as a whole were unaware of the value of each other's assets. Being truthful might backfire. As a result, mistrust was widespread and there was no foundation for collaboration. The impasse could only be broken by government action, which would ensure asset values and generate confidence.

Trust, Confidence, and The Public

The public's purchase of homes they couldn't afford, the escalation of property prices, and the widespread misconception that home values would only rise all led to the housing bubble. The appropriateness framework offers a means to comprehend how this whole thing came about by posing the question, "What would a person like me do in a situation like this?" In order to respond to this query, the general public must make two crucial judgments: What kind of individual are they? What kind of circumstance is this? The kind of engagement that prospective homeowners will have with the mortgage providers is determined by their response. Concerning the first query, the crucial point is whether or not prospective purchasers consider themselves and the mortgage lenders to be in the same category as, say, "housing advocates." In such an instance, increasing the loan amount is the shared objective of both the mortgage providers and the prospective purchasers. Regarding the second query, the crucial aspect is determining if prospective purchasers believe there are no regulatory constraints in place. Potential purchasers will base their collaboration on trust in light of these two depictions. On the other hand, if prospective purchasers believe that they and the mortgage providers are members of distinct groups, each with their own objectives, and if they believe that the situation is tightly governed by laws, then they will base their cooperation on trust. Of course, during boom periods, mortgage providers are experts at disguising transactions as appropriately founded on trust while, in reality, the public believes that they should be firmly based on confidence.

The public's attention swiftly shifted from trust to confidence and its loss when the bubble burst. Following the announcement of the first bailout proposal but prior to the second, a nationwide public opinion survey revealed that:

(a) The public's perception of "how things in this country are generally going" plunged to an all-time low, with 89% of respondents believing that "things have pretty seriously gotten off on the wrong track."
(b) Acceptance of President Bush's approach to the economy was at an almost all-time low, with 72% of people not liking it.
(c) A record high of 88% rated the con-dition of the national economy as “fairly bad” or“very bad.
(d) Nearly all respondents—93%—thought that the economy was either "staying about the same" or "getting worse."
(e) Only 17% of respondents said they trusted the federal government "always" or "most of the time," marking a record low in terms of public trust.
(f) Only28% expressed approval for the economic bailout plan.
(g) Asked who they thought would benefit from the bailout, 63% said “just Wall Street,” while 28%said “people throughout the country.

All things considered, there was very little public trust in the government and the economy, and the administration's efforts had had no positive impact. After Congress approved the second bailout package, a New York Times/CBS survey revealed no gain in popular confidence in the government or the economy and more support for the second bailout than the first. Similar results were obtained from other surveys. October saw a record decrease in consumer confidence according to the Reuters/University of Michigan Surveys of Consumers, and the Conference Board Consumer Confidence Index reached an all-time low in October.

It was obvious that the administration, and Treasury Secretary Paulson in particular, had been utterly ineffective in interacting with the people and garnering support for the steps they had taken to address the problem. However, Paulson would have most likely failed even if he had made a concerted effort to win over the people. This is due to the fact that the public would have regarded his actions—whether they were made with trust or mistrust—in the context of the current relationships. Because the public distrusted him and the government, there was little support for his actions.

This issue is particularly challenging because the public won't be affected by the government's actions until much later, if at all. In the meanwhile, the majority of what the public had to anticipate was bad: higher jobless rates, decreased median family income, sharply declining consumer spending, ongoing bankruptcies, etc. As a result, the government was unable to boost popular confidence. The relationships between the government and Congress and the government and the bankers stand in stark contrast to this. These later groups shared the notion that the issue was technical rather than political, which the previous groups did not share. This gave them a foundation for trust and a starting point from which to implement initiatives aimed at fostering confidence. Actors who thought the issue was technological were easily able to recognize the similarities between Wall Street and Main Street: Wall Street required direct financial stimulus, and Main Street needed Wall Street to be bailed out. The people perceived no relationship between Wall Street and Main Street and thought the issue was political, as the polling data made evident.A trust issue is an apolitical issue. The public needed a person in a position of authority to explain to them the principles that Wall Street and they both held dear, such as the necessity of a healthy financial system and a thriving economy that can produce steady, well-paying employment. That will be our future president's main responsibility. "If it's not already too late, the new president must convince Americans that the bailout is being managed for their benefit, not for Wall Street's," stated former Fed Vice Chairman Alan Blinder.

According to Blinder, specific actions that may be implemented include allocating a portion of the bailout funds to the refinancing of Main Street houses, focused fiscal stimulus programs, increased availability of food stamps and unemployment insurance, home heating assistance, and more comprehensive health insurance. If the incoming administration moved swiftly to implement these measures, the public and the government would develop a relationship of trust that would serve as a foundation for confidence-building. Emotions are the food of trust. The people are happy with the new president, and it is his responsibility to make them feel the same way about the administration and demonstrate that it is their government, working for them.

Trust, Confidence, and Risk Management

The primary focus in learning more about the global financial crisis of 2008 has been on the significance of differentiating between confidence and trust. For instance, I have witnessed the negative outcomes that arise when customers mistakenly believe a transaction to be founded on trust when, in reality, it is based on confidence. Similar to this, government projects that are based on confidence when they actually need to build trust beforehand risk failing. The paper goes into more detail on the trust vs confidence dichotomy in this concluding piece, as well as the positions that the government ought to adopt about them in different situations. The difference between confidence and trust stems from the desire for correctness in the second situation and solidarity in the first. Whereas confidence focuses on the relationships between people and (things viewed as) objects, trust is on the relationships between people (and things treated as people). This results in two main methods to risk management: a political process-based approach and a technological process-based approach. Strong proponents of the political method include Tetlock, who supports the explicit recognition of valued distinctions and the power of emotions, and Kahan and Braman, who contend that "culture is prior to facts" .

Exchange rate crises

Ambiguity in Currency and uninsured overseas debt led to the Great Asian Crises in 1997 (Caused by International commercial banks)

Debt was mostly borrowed in the form of short-term loans, US dollar-denominated loans from foreign institutions taken by International Commercial banks operating in East Asia. This was done because International commercial banks had no interest in the value denomination of these national currencies, their only motive was borrowing loans from International financial institutions in dollars and lending it to local people in these countries in local currencies and earning interest in local currencies only .(Kelly & Olds, 1999)

When the native currency declined sharply—specifically in the instance of the Indonesian rupiah—the result of this lack of hedging was that International banks operating domestically had purchased loans from overseas in dollars that were repaid locally in local currency. An issue with the "currency mismatch"(when future income and expense flows' current discounted values are impacted by an exchange rate shift, it's referred to as a currency mismatch. refers led to balance sheet issues). In certain instances—most notably in Korea and Indonesia—local non-financial firms took on currency risk when they borrowed foreign currency in US dollars from foreign banks without the help of local banks. Local businesses were occasionally given money in dollars by local banks.

This meant that the businesses took on the currency risk and the banks took on the credit risk. It was also led due to currency mismatch specifically at the end of domestically operating banks while paying back the loan which led to the problem of balance sheet issues.

In each of these instances, the depreciation of currency rates brought about by the end of the investment boom which had a significant negative impact on the balance sheets of firms and banks. Actually, a large number of businesses and banks went bankrupt due to the issue of currency mismatch; the currency crisis significantly exacerbated the financial crisis.

Let's address the cause of the inability to provide a hedge against the effects of the currency mismatch. The need for hedging will probably grow under a floating rate system, and a suitable market for hedging will probably appear. Having seen fluctuating exchange rates, it is likely—possibly even inevitable—to feel the need to hedge. In contrast, the fixed rate regimes did not seem to require hedging since it was believed that a collapse in the regimes was extremely unlikely. However, the currency mismatch created unhedged against balance sheet issues when the regimes did fall, hurting banks, other financial intermediaries, and businesses that had borrowed in dollars but failed to earn in domestic currency.

How is Ambiguity of National Currencies Of Thailand, Indonesia, and Korea related to downfall of their economies.

Many people consider the East Asian crisis to be a currency or exchange rate issue. It's also true that the depreciation of the 'baht' was the catalyst for it in Korea, Malaysia, and Indonesia. Therefore, what is the nature of the relationship? Between the booms and busts in investment and the exchange rate regimes? Three of the nations had (roughly) fixed exchange rates to the US dollar prior to the crisis.

There was some—but not much—flexibility under the Indonesian target zone policy. First, there would still have been a boom ultimately followed by a soft or strong crash if exchange rates had floated and underlying shifting expectations about investment profitability had been the same as they actually were.

There would have been current account deficits despite nominal exchange rates appreciating during an investment boom, which would have reduced inflation more than it would have with a fixed exchange rate. Real appreciation may have been slightly higher, (which may have helped to temper the boom.). There would have been a nominal depreciation—a harsh landing—when investment finally collapsed, potentially very sharply. These depreciations would have likely sparked exports and import-competing industries after a lag, which would have lessened or even eliminated the recession brought on by the decline in investment. This might be compared to what actually happened. Following the termination of the fixed rate regimes due to various crises, there were significant or huge depreciations in the case of Indonesia , which ultimately led the economy to turmoil.

We can clearly infer from all this that Currency crisis in a nation often follows investment crises as pointed out by (Warr 2002) and (W. Max Cordmen 2007)

The rising amount of highly volatile short-term debt compared to reserves made Thailand very vulnerable to a currency crisis. Over the period from early 1990s there has been an increase in short-term debt, particularly after 1993 when the capital account's progressive liberalization was stopped.

The same situation therefore followed in Korea and Malaysia too

For Korea, the narrative was largely the same. Long before the currency crisis, there were unmistakable indicators of a financial crisis, or at least problems (Krueger and Yoo, 2001). Excessive lending had been made to unreliable borrowers; the conditions of Trade declined in 1996 as a result of mounting evidence of banking system issues that eroded trust. The fixed exchange rate system was only forced to be abandoned in late 1997 due to an economic crisis, which forced Thailand to open itself and shift to a floating rate system in the international market.

In the case of Malaysia, there were indications of banking issues and the stock market had soared to unsustainable heights prior to the currency crisis. The underlying issues in the case of Indonesia were essentially the same as well. Due to the absence of information back then, though, fewer people were aware of the potential issue of an international borrowing spree. In this instance, the financial crisis developed after the exchange rate crisis, which was brought on by the devaluation of the Thai baht.

Loose monetary policy linked with Political Instability

How loose monetary policy can cause recession?

A too-loose monetary policy aimed at ending a recession might drive aggregate demand so far to the right that inflation is triggered. A recession might start if restrictive monetary policy intended to lower inflation pushes aggregate demand too far left[3]*.*

In the contemporary world the topic of political stability is one of such a great importance that the political powers from around the globe are trying to solve the problem. Stability is necessary for development of an individual in all spheres of life. Positive changes are not possible if there is destabilization or degradation. To understand how important stability is one needs to understand what political stability actually mean

Political Stability

Political stability, which is characterized as public order and dominates the network of links and interconnections reflecting the community and succession of objectives, values, and means of accomplishing them, is a qualitative indicator of public progress. As a result, stability is the capacity of the parties involved in socioeconomic life to withstand forces both inside and outside the system that might otherwise upset it. In this regard, stability is seen as the primary mechanism supporting the growth and vitality of the social structure.

The content of stability can be conceptualized as follows: stability is firmness; consistency; a system's ability to function keeping its structure inalterable and supporting balance.

Argentina's Case study

To attain "economic development with social equity," as stated by the government, direct economic intervention has been undertaken in Argentina. As stated by Hornbeck, 2013 Argentina has always prioritized economic development, and demands a significant financial investment, as in they have invested more in infrastructural development. In terms of expenditure, public policy promotes equality through social transfers, such as determining the cost and domestic supply of essential consumer products (such as food, healthcare and energy); offering direct subsidies for transportation and energy; and modifying wages to compensate for inflation.

Under President Duhalde, subsidies were introduced, partly to help people forced into poverty with their basic requirements. However, since 2006, the scope and expense of programs have increased, leading to an increase in budgetary deficits. From US$1.6 billion in 2005 to US$18.1 billion in 2011, subsidies increased.

These were a result of long term political instability because when a party/group/individual wants to come to power in democratic setup they tend to make promises with the public which in some way or another are not possible to achieve most of the time. Hence, they result in a burden over the economy.

Something on the same lines happened in Argentina. Its monetary policy is characterized primarily by its expansionist tendency, which backs economic, fiscal, and exchange rate objectives. Notwithstanding the Central Bank's (Banco Central de la República, or BCRA) assertions of policy neutrality or "autarky,". The overwhelming body of evidence—discussed below—indicates the existence of an organization whose main goal is to support the national government's overarching objective for economic policy. This change has happened gradually, with a significant turning point in 2010 when the BCRA's then-president refused to utilize its funds to pay for government expenditures. This refusal led to a confrontation that ultimately resulted in his forcible departure.

This indicates that even the central banks had no right to advise their government on their fragile economic policies, which if they do so can result in their immediate departure.

To meet their expenses the government needs funds, these funds were not readily available in their domestic economy and for that the mandated ratio of the international reserves to the monetary base was removed by the government, giving the state more freedom to manage and spend forex reserves as and when needed. Using a variety of tools, including money creation and central reserves.

However, the Argentine government predicted this change and to tackle it. Argentina's new Central Bank Charter, which went into effect on April 6, 2012, was another step in the change. Price stability was no longer a primary policy objective of the central bank, as stated in its official charter, which now specifies that the organization's purpose was to "promote monetary stability, financial economic growth, job creation, and social equality along with economic stability. The BCRA's involvement in loan allocation especially for long term investment projects clearly states its stance. (Perry, 2003)

Through Argentina's case study it may be clearly observed that a government's political aspirations can lead a country's economy to downturn.

Political transition in North African countries.

The North African nations, including Egypt and Morocco, are located in an area with a wide range of economic conditions, encompassing both resource-poor nations relative to their population and oil-rich nations. Two variables have shaped this region for the better part of the last 25 years: the price of oil and the legacy of oil prices in this area.

High rates of unemployment, inflation, and dissatisfaction with corruption propelled the public uprisings that overthrew authoritarian regimes in Tunisia, Egypt, and Libya. Even though Tunisia's GDP grew by 4.6% in 2008 and 3.0% in 2009, the country's unemployment rate remained extremely high. Significant regional differences in employment and poverty were caused by a national average rate of 14% and 30% among youth. The revolution's spark is found in the hinterland regions. Before the dictatorship collapsed, Egypt also saw high rates of unemployment, inflation, and poverty exacerbated by corruption. A minimum of 16% of the populace was impoverished. Over the past five years, official jobless rates have averaged 9%. reaching a maximum of 22.5% in 1995 and a mean of 11% in 2010. Inflation during the previous 30 years has been around 10%. Libya was in a similar predicament, with youth unemployment reaching 17% and inflation at 12% in 2009. Because of the complexity of the economic system brought about by the shift, the situation in North Africa has gotten worse.

The region's average growth rate surged to 5.6% in 2003 and 2004, which is much higher than the 3.6% growth rate in the 1990s. The MENA area saw its strongest per capita growth since the 1970s in 2003 and 2004, with average growth of up to 3.5%. Nonetheless, these economies' acceleration shouldn't decelerate. It is not very common, to start. When comparing the years 2003 and 2004 to the 1990s, we find that every country in the area saw a more substantial economic decline in the latter decade.

The primary cause of this economic downturn was the decrease in foreign direct investment in the area brought on by the political unrest there. The North African economy suffered a substantial setback in 2013 due to political upheaval, which further hampered the region's prospects in 2014. During this time, Libya and other major oil exporters encountered significant challenges that slowed their rate of expansion.

Whatever the underlying causes—domestic, national, or foreign—the event that rocked Egypt and Tunisia had a significant impact on their economy. If political unrest persists, Egypt and Tunisia are likely to have economic downturns. This explains why foreign direct investment hasn't resulted in the creation of jobs. A contributing factor is the unfavorable business climate that is still overly favorable to special interests at the expense of competition. Similar to Tunisia, offshore export industries' ability to compete on the global stage is weakened by the protection of monopolies in the transportation and telecommunications sectors.

Extraordinary Event

Economic agents such as demand, supply, government interventions cannot always engage in free activities, this is due to fear of contradiction in the economy. Something similar happened with Nigeria during Covid outbreak. As stated by Ozilli (2021) when COVID-19 outbreak and falling oil prices combined to cause a decline in the demand for oil products as well as a halt to economic activity when social distancing policies were put into place, which is what caused Nigeria's economic downturn. In response to the issue, the government gave financial support to companies as well as a few homes impacted by the coronavirus (COVID-19) epidemic. The monetary authority implemented flexible monetary policies and provided certain sectors with a targeted $3 billion lending assistance. These actions ought to have stopped the economic catastrophe in its tracks, but they didn't. Various sectors failed in the economy-specifically the energy sector found itself in a catastrophe (Ozilli,2021).

V. Conclusion

The main causes of an economic crisis are outlined in detail in this essay, along with an attempt to group them under a single heading. The study examines economic crises and their origins in detail.

Firstly 'Trust, Confidence, and False Belief' model played a vital role in the 2008 crisis in the U.S.. Trust and confidence are very vital for an economy to work as the basic movement of money in an economy is completed on the basis of Trust and Confidence between payee and payer. Trust and Confidence acted differently with the different individuals of the 2008 crises such as the regulators, the bankers, the risk managers, and the common man or the general public. The Trust and Confidence model acted with the general completely differently due to which it resulted in false belief among the common man which worsened the crises.

Secondly 'Exchange rate crises' can be caused due to various reasons such as the mismatch in the balance of payments, and stock market crises. Out of these, balance of payments played a major role in 'The Great Asian Pacific Crisis' this was due to the introduction of international banks operating domestically in countries like Indonesia, South Korea, and Thailand. These banks took loans from foreign institutions and tried to use those funds to earn money in the domestic currency by lending loans in local denomination and earning interest in local currency.

Thirdly 'loose monetary policy due to political instability' which leaves an economy into turmoil just for political gain was the cause of economic recessions. In this situation even the Central bank of the nation does not exercise the freedom to give economic suggestions to the government. Apart from that if a country faces political instability, then the Foreign Direct Investment to that country is very restrictive due to which their employment rate falls, with causes an increase in inflation.

Fourthly 'some extraordinary events' which are erratic in nature, also spark economic instability. These events include pandemics like Covid-19 and wars. These extraordinary events leads to a crises as they disturb the whole economic system.

Hence, it may be clearly inferred that economic crisis are a result of either the factors which can be controlled by humans or by the factors which are out of human control. To reduce the severity or impact of an economic crisis one cannot control the factors such as pandemics. However, what one can do is to control human factors such as using trust and confidence model more efficiently so that there is no false belief spread among the common man. Apart from this if an economy needs to grow there should be stable political environment so that foreign investors feel that it is safe to park their money in that country. Apart from these exchange rate policies in nations should be strictly monitored.

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