

**Prin. L. N. Welingkar Institute of Management
Development & Research**

**Global Financial Crisis &
Way Forward**

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Matunga, Mumbai.

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Global Crises

1. What are the reasons of global crises?
2. What is the action being taken by the world governments (including Central Banks)? Are they on the right track?
3. Give reasons for your perception.
4. Will the action being taken succeed?
5. How would you define success?
6. The crises have spread from finance to trade & industry; and from USA to rest of the world. What can be done to control the spread?

Global Crises

7. What is the position in India? How deep may India be affected? What can be done to minimise damage in India?

Decoupling.

India is not export dependent except in case of IT & BPO.

We are not FDI /FII dependent. However, sentiment is strongly affected by FDI & FII.

With huge unsatisfied needs, how can India have a recession!

Need \neq Demand.

Global Crises

8. What is the role of IMF & World bank? Are they doing adequate? Are they doing the right things?

9. Is it a crisis of liquidity or a crisis of confidence!

10. Identify Indian dead-wood:

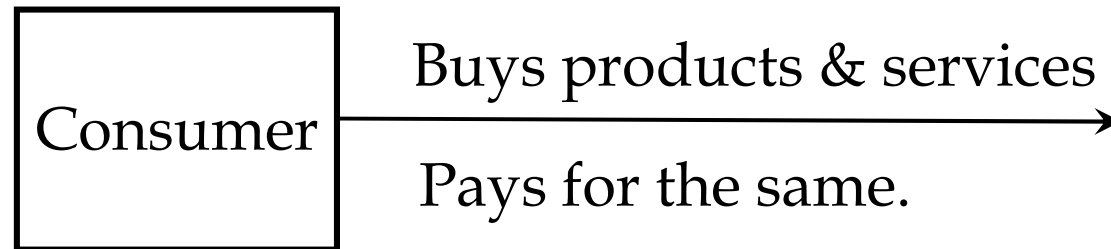
Share Market, Property market, Corruption, incompetent & un-trust-worthy politicians.

Share markets: Whole system of cheating the retail investors.

Myths

1. U.S. economy is too big to fail.
Banking industry is too big to fail.
AIG is too big to fail.
2. Land is limited in supply. Hence the prices have to only go up.
3. U.S. \$ is safe haven.

Finance is a matter of flows - 1

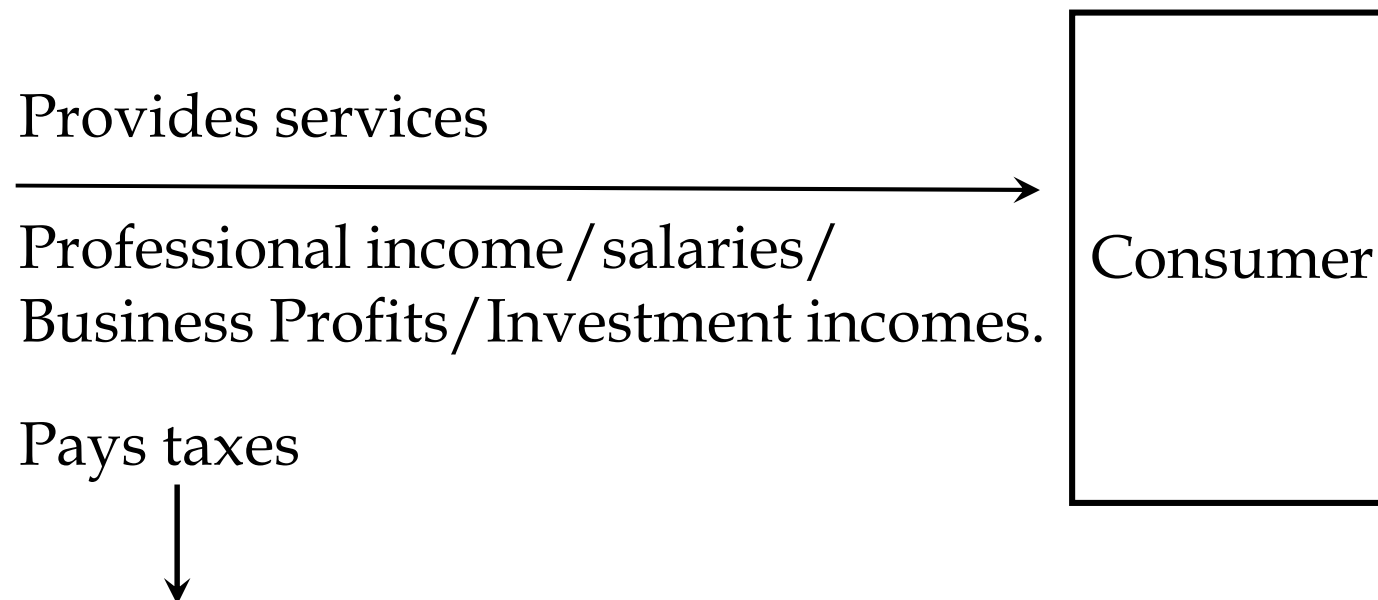


And Pays taxes



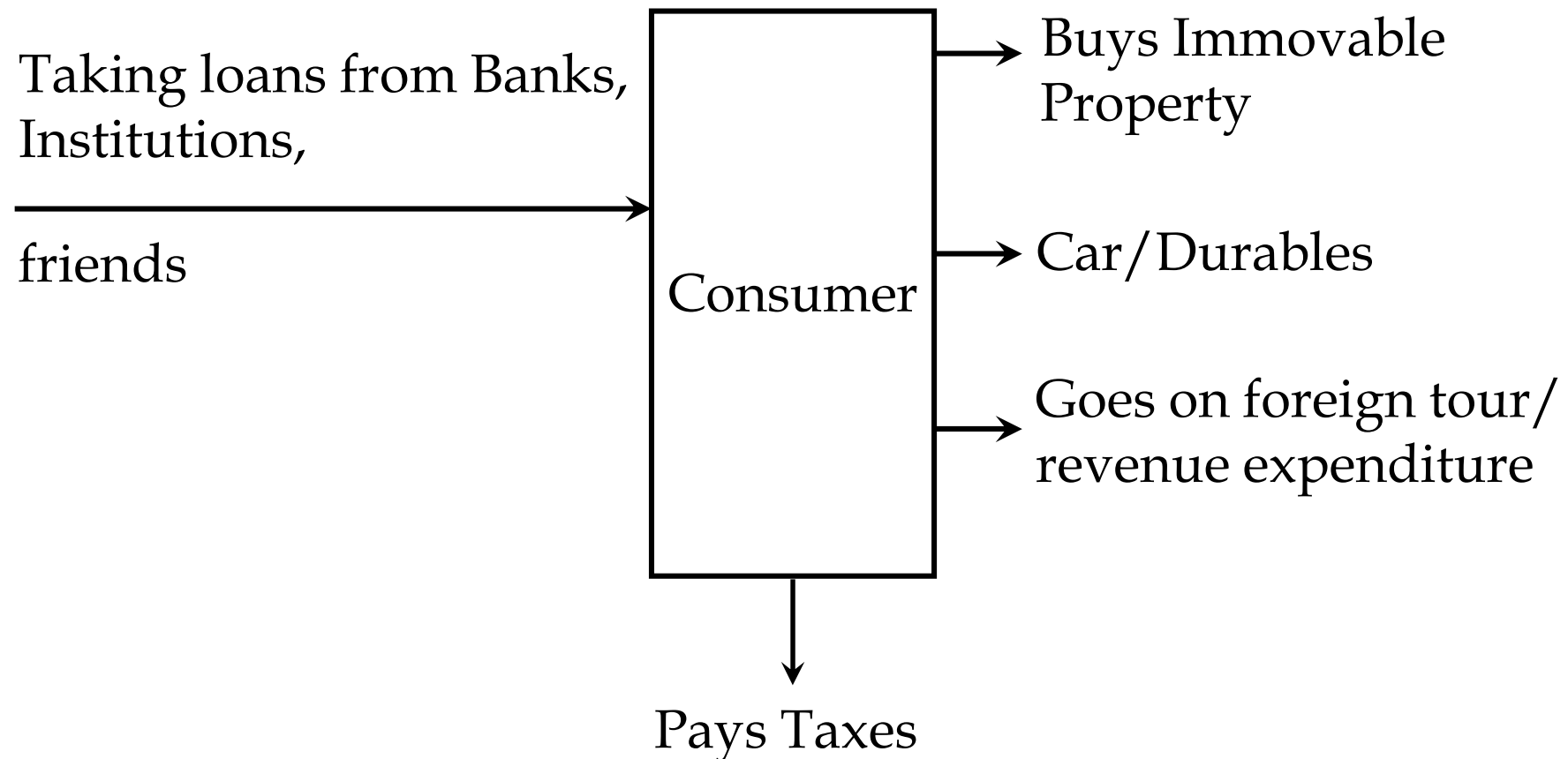
Finance is a matter of flows - 2

- Consumer himself is also a provider. That is how he earns money.

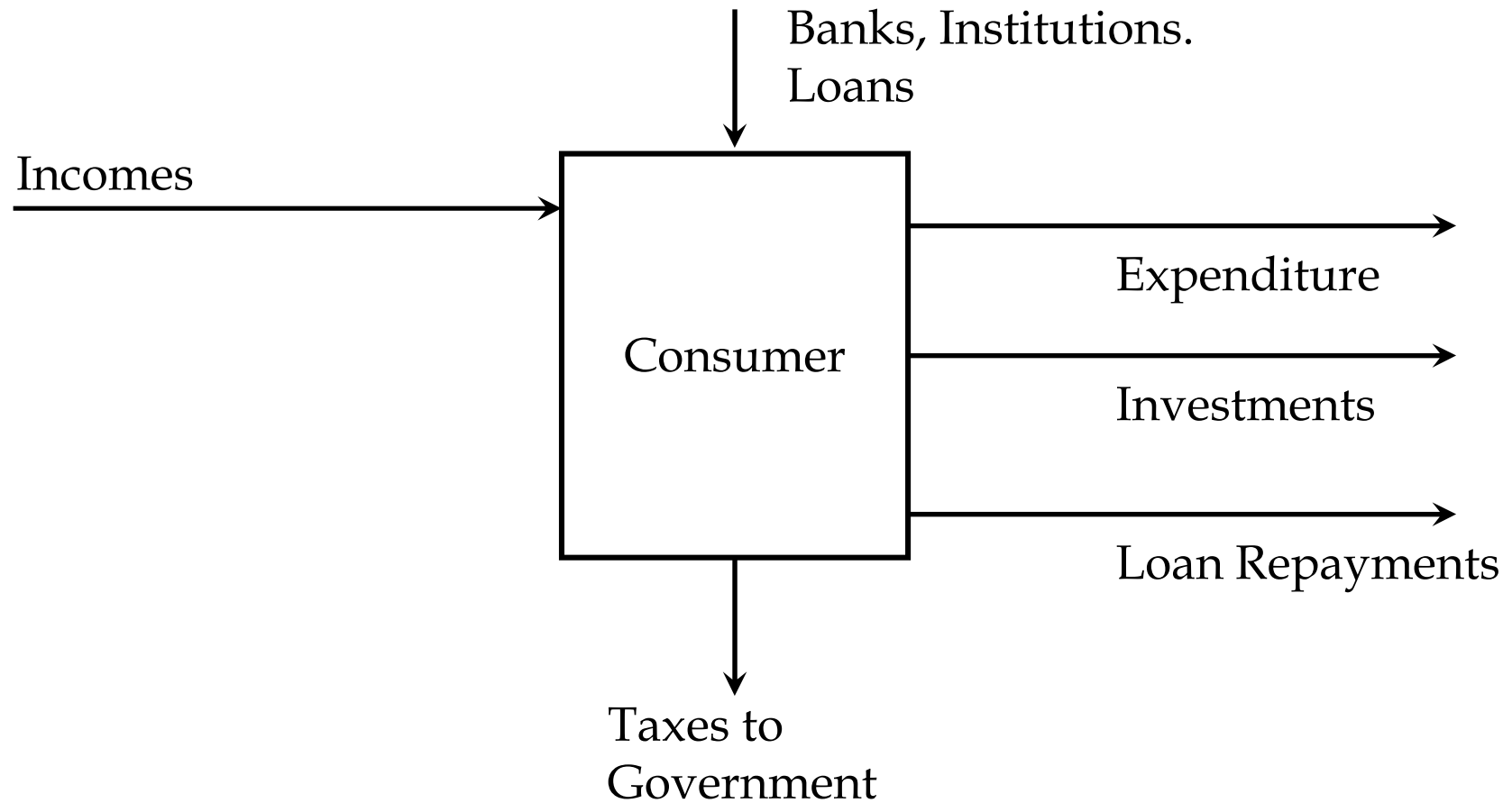


Finance is a matter of flows - 3

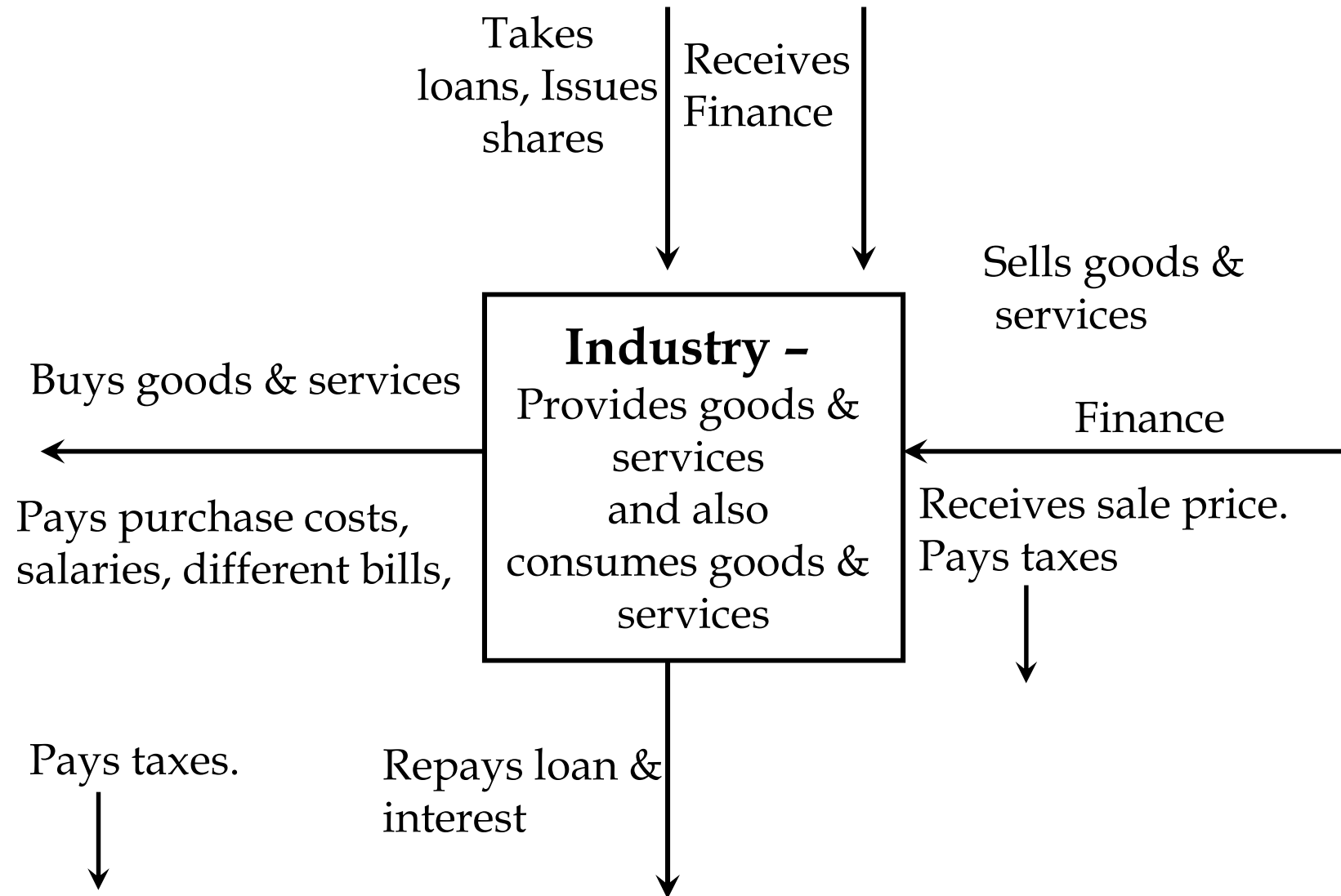
- Consumer augments his resources by



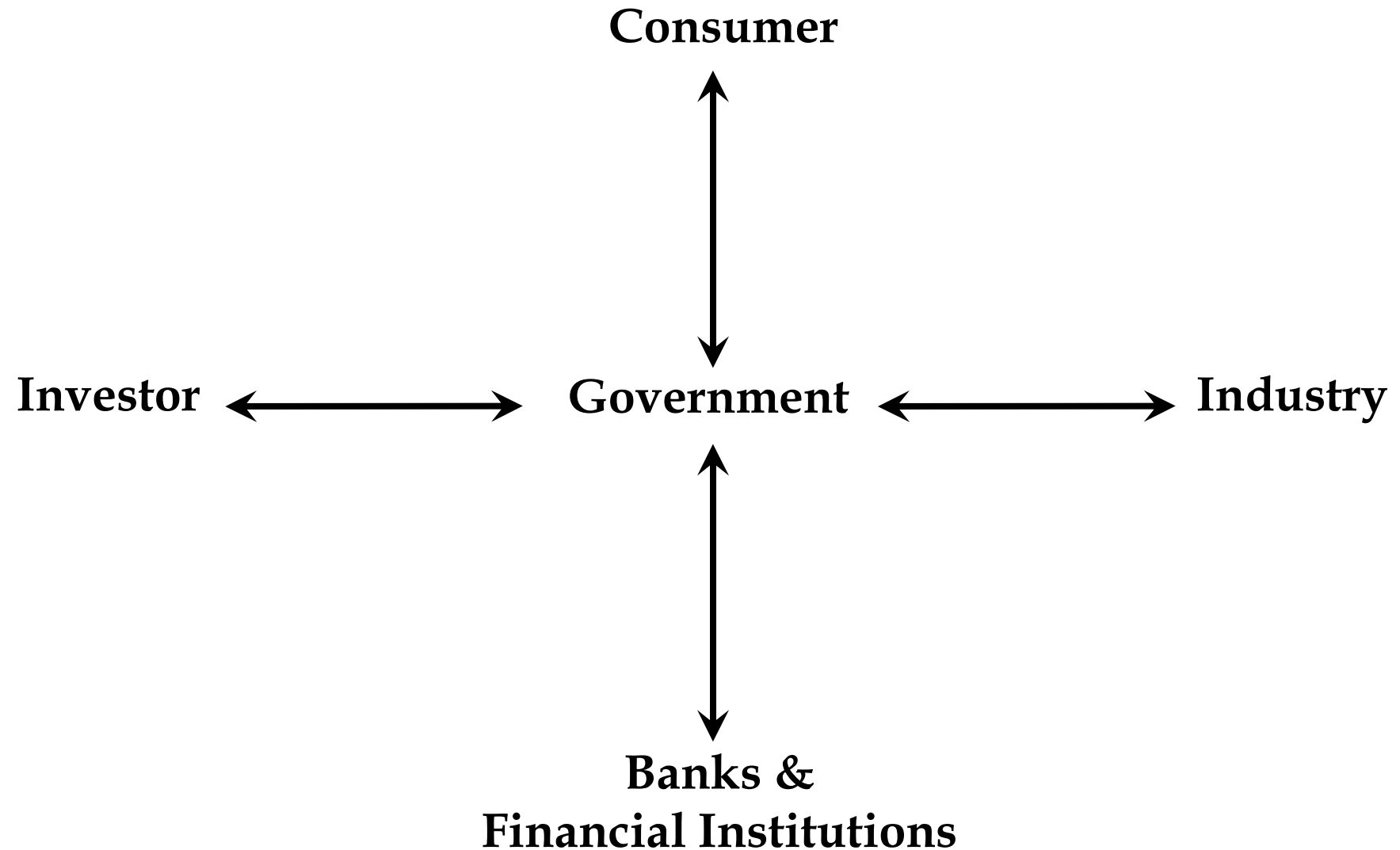
Finance is a matter of flows - 4



Finance is a matter of flows - 5



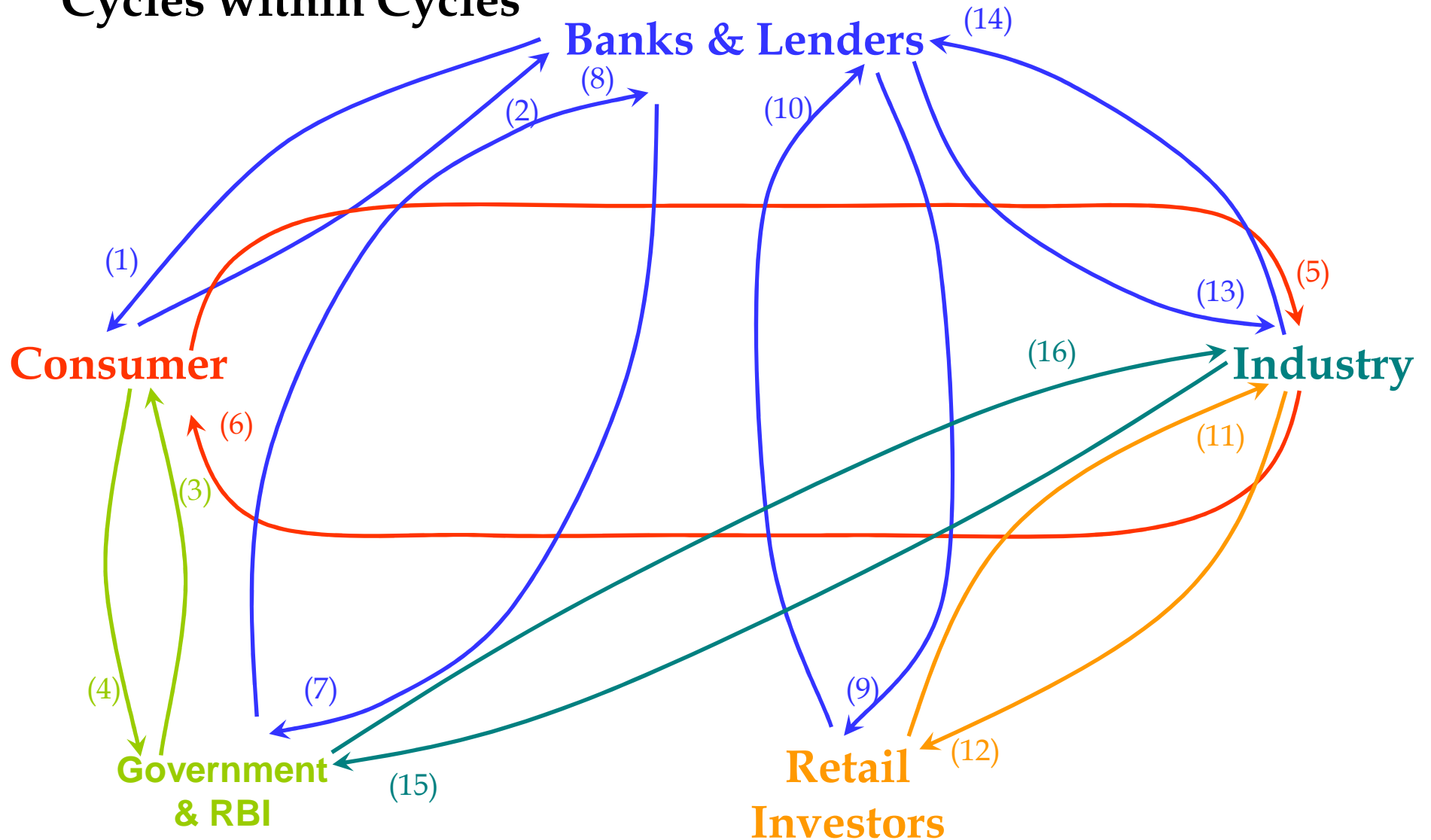
Finance is a matter of flows - 6



Flows of Finance - 7

Several Cycles of Finance.

Cycles within Cycles



Flows of Finance - 8

Several Cycles of Finance.

Cycles within Cycles

- If we divide the Economy in five groups, each group interacting with the rest; then we may have twenty (5×4) cycles of financial flows. We have shown only a few financial cycles.

Same entities perform several roles.

The five groups are not separate groups. Each group has several roles.

Flows of Finance - 9

Taxes



**Govt. provides services -
Law & order
management & Economics**



Prices collected.

**Some services charged.
Most services are free.**

Finance is a matter of flows - 10

Flows of finance in the economy are like flow of blood in human body.

An adult man may have about 6 litres of blood. Let us assume Mr. USA has full 6 litres of blood.

However, he has a clot in the heart. With all the blood being available, he will still suffer a heart-attack.

Tipping Point

Butterfly Effect

Leveraging.

Global Financial Crisis

- Some Reasons.

What is the Critical Mass / Tipping Point?

When does a bank get toppled?

When the **leverage** is 33 times a Company's net worth, the critical mass to topple is less than 3%.

When the leverage is 1:1: critical toppling mass is 50%

Doubt the Merchant Banker.

Don't take it for granted that they are noble people.

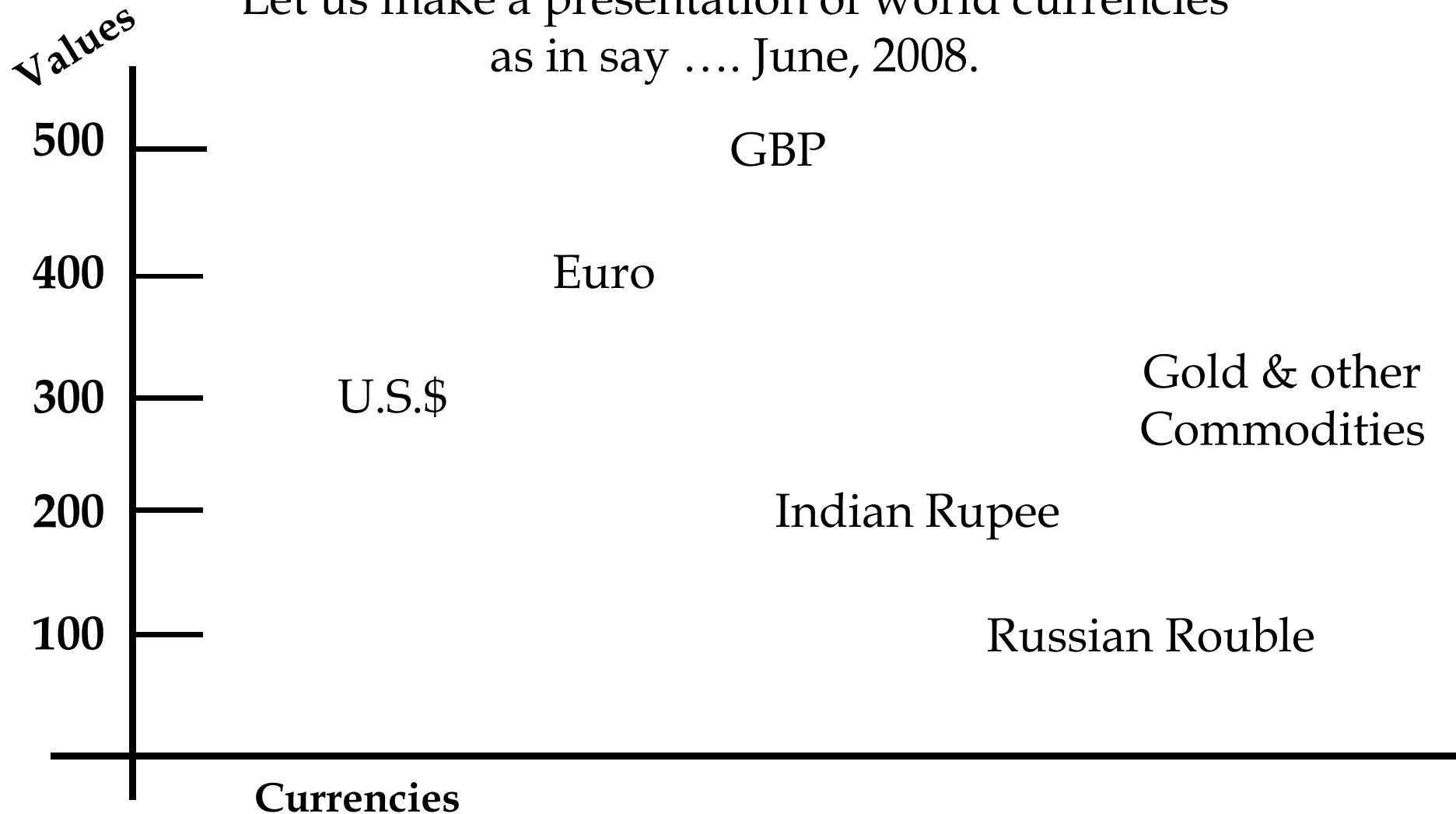
Sub-Prime Crisis – 2007

How it developed.

AIG Insurance –
Credit Default Swap.
2000 to 2008.
2005 Chairman fired.

FX Rate fluctuations Vs. Collapse - 1

Let us make a presentation of world currencies as in say June, 2008.



Assume, at some future time. All currencies collapse.
What will happen?

FX Rate fluctuations Vs. Collapse - 2

When all currencies fall, what happens!

The internal parity amongst currencies may still:

- (A) remain same; or
- (B) may be disturbed.

But prices of Gold & other commodities rise.

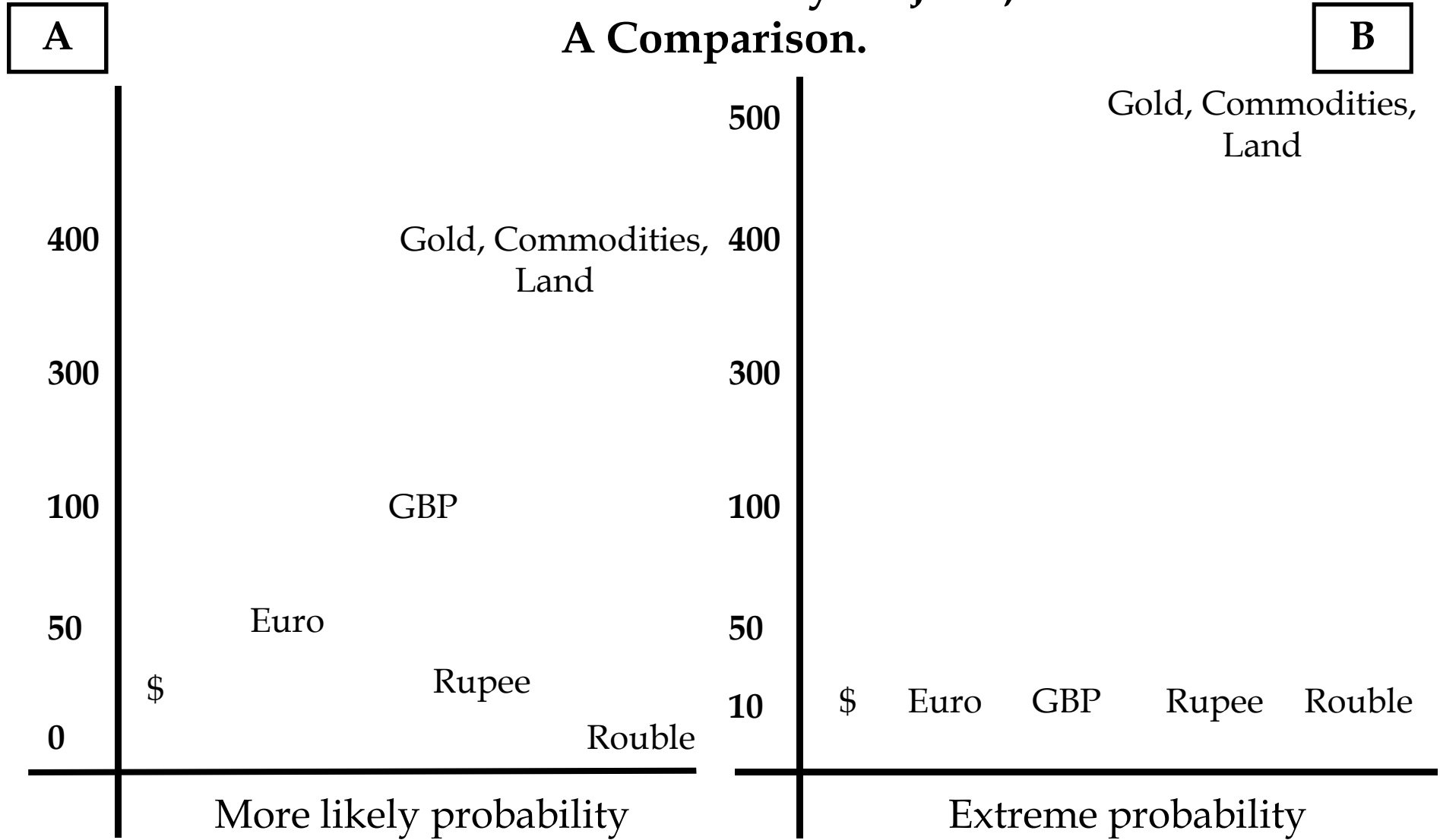
Industrial activity falls.

Hence commodities that constitute industrial raw materials; fall.

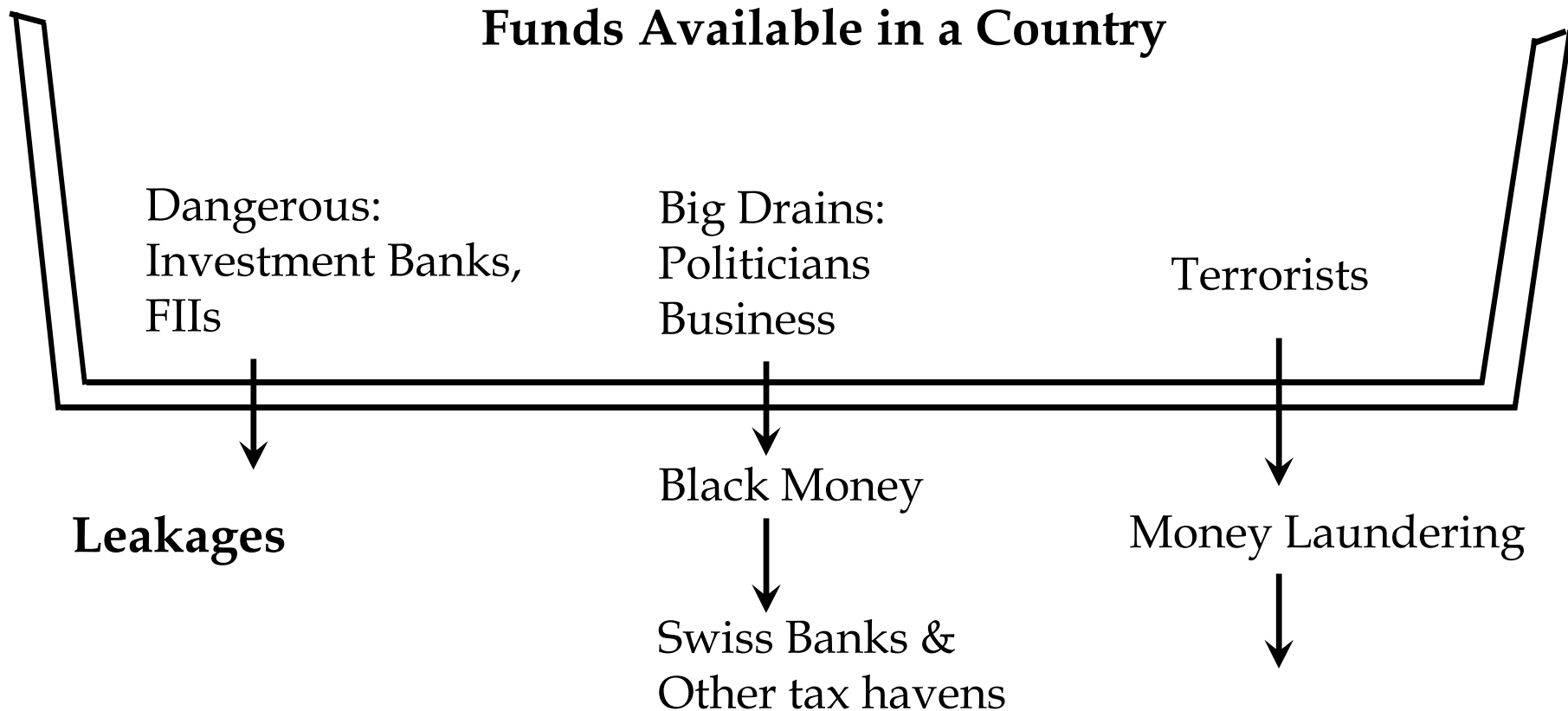
FX Rate fluctuations Vs. Collapse - 3

World currencies as in say June, 2008.

A Comparison.



GDP and Finance: Cause & Effect - 1



When the finance goes out

As the circulation of finance increases, GDP increases.

If finance is reduced, GDP is reduced. If GDP is reduced, finance is reduced.

GDP and Finance: Cause & Effect - 2

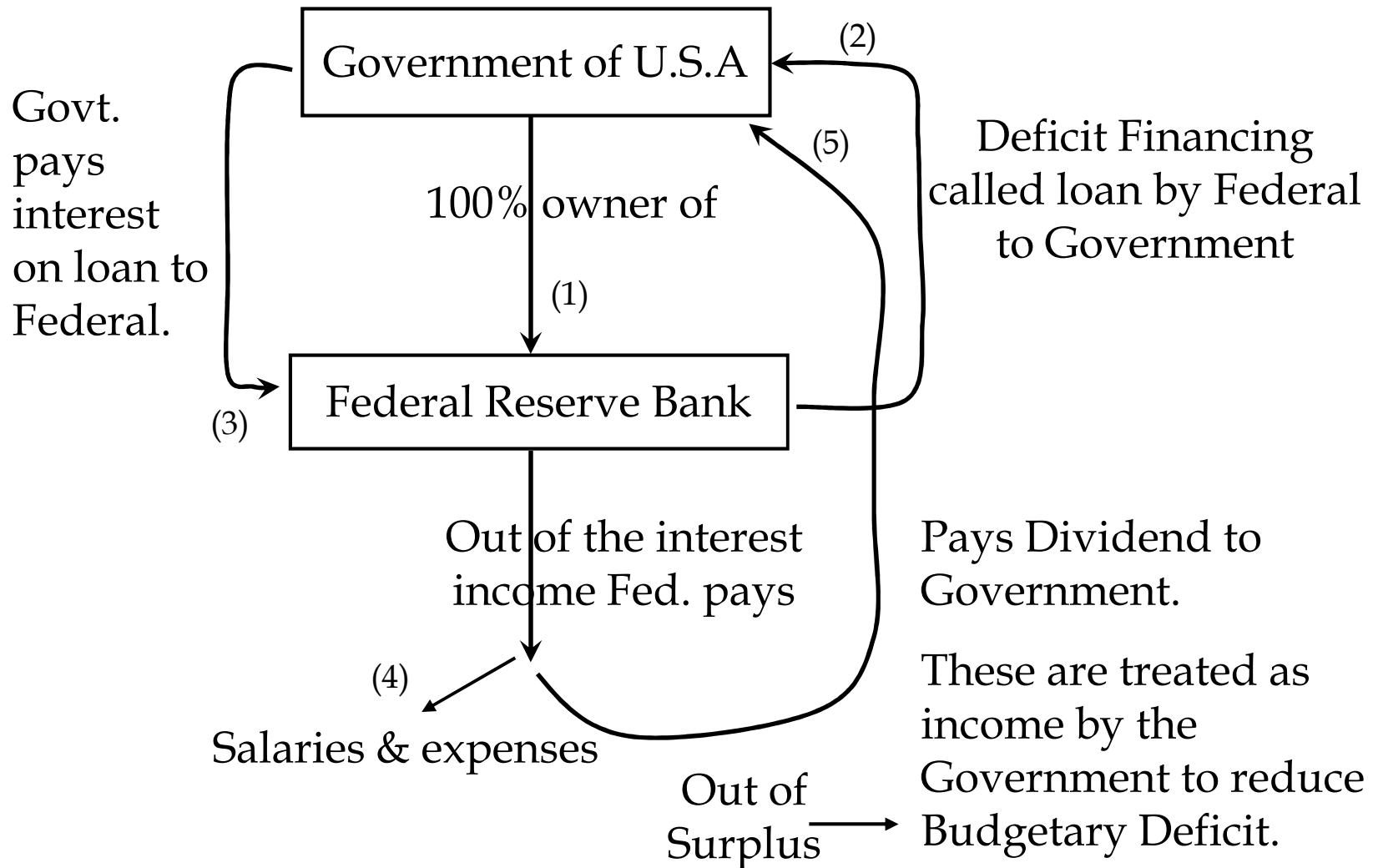
What if U.S. collapses?

	Production	Domestic Consumption	Exports
China	100 units	70 units	30 units
India.			At very low price
Brazil.			starving domestic poor

With the collapse of the U.S. Economy, these 30 units will stay within the domestic market or will be shared with other countries.

U.S. economy is the biggest drain on rest of the world's economies. If it collapses, it will be beneficial to rest of the world.

The Mayajal of Deficit Financing



Relationship

One Perception:

The relationship is important.

by & for itself.

We build relations to share love & enjoy.

Business & income are incidental.

Relationship

Another Perception:

All relations are for personal benefit.

All benefits reside in money.

Relations & net works are a means to money.

Who will have peace & rest at heart!

Who will have high B.P./depression ruining the life

Relationship

For many – employer – employee relationship is nothing but business.

Employer wants to extract maximum work; &

Employee wants to extract maximum money.

Indian philosophy says – not only human – relationship but even the relationship with our animals should be based on love.

Relationship

The employer takes care of employees as family members. And the employee contributes to the office like a family member.

We even take care of our cows, buffaloes, bullocks & horses. If you go to villages & stay with good farmers, you will see the difference.

Some philosophical thoughts

1. Un Ekant Vad

2. Maya.

Nearest English word for Maya is “Illusion”.

Illusion means: “What is being seen does not
exist.

And what exists cannot be seen.”

The difference between Maya & Illusion is:

Even if you know that some thing is Maya, you
are still tempted by it.

Some philosophical thoughts

3. Law of Karma

4. History repeats itself.

One who does not study the history, is punished to experience history.

No-one can predict what will happen how & when. It repeats itself in different manners all the time.

Some philosophical thoughts

5. Tulsidas: “Samarth ko nahi Dos Gusain”

“People do not see faults in the Rich & Powerful.”

Hence certain people claim –rightly or wrongly, to be superior/rich/powerful.

“Garva Karyo So Nar Muvo.”

Whoever indulges in ego is bound to be destroyed.

Bhartruhari.

Some philosophical thoughts

6. Dialogue between the Chinese King & Confucius.

What is most important for a King!

Confidence of the people.

In case of WAR with enemies?

Still, citizens' confidence is the key.

Some philosophical thoughts

What is more important in case of a FAMINE!
Peoples' Confidence in the King.

When confidence is gone, every thing is gone.



Thank You

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