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Old Wine in New Bottles: Subprime Mortgage Crisis - Causes and Consequences

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Michael Lim Mah-Hui (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=949053)

Nippon Foundation - Asian Public Intellectuals Program

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Abstract

This paper seeks to explain the causes and consequences of the U.S. subprime mortgage crisis and how this has led to a generalized credit crunch in other financial sectors that ultimately affects the real economy. It postulates that despite the recent financial innovations, the financial strategies - leveraging and funding mismatch - that led to the present crisis are similar to those found in the U.S. savings and loans debacle of the late 80s and in the Asian financial crisis of the late 90s. However, these strategies contain new innovations that have heightened, not reduced, systemic risks and financial instability. They are as the title implies: old wine in new bottle. Going beyond these financial practices, the underlying structural causes of the crisis are located in the loose monetary policies of central banks, deregulation, and excess liquidity in financial markets that are a consequence of the kind of economic growth that produces various imbalances - trade imbalance, financial sector imbalance, and wealth and income imbalance. The consequences on risks, moral hazards and rolling bubbles are discussed.

Keywords: subprime mortgage crisis**JEL Classification:** M40, M41[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1263280_code438461.pdf?abstractid=1263280&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1263280_code438461.pdf?abstractid=1263280&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1263280_code438461.pdf?abstractid=1263280&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1263280_code438461.pdf?abstractid=1263280&mirid=1&type=2)

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