Market meltdowns: The global contagion

By Bankrate.com

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Today’s financial marketplace is as globally integrated as it has ever been. The impact of events outside America’s borders will directly impact the U.S. Here’s how past global events have shaped our economy.

1992 - The Maastricht Treaty

1931 - The Collapse of the Bank Credit-Anstalt in Austria

1819 - Adverse financial conditions in Europe

2008 - The Asian crisis

Timeline

The collapse of the bank Credit-Anstalt in Austria in 1931 had a domino effect on global financial markets and hastened the Great Depression. Credit-Anstalt was considered “too big to fail” and was rescued by the government and the Austrian National Bank, leading to bank runs in Poland and Hungary, the end of the Austrian gold standard and concerns about the German economy.

The Asian crisis and the American crisis in 2008 both involve the basic characteristics of a boom-bust event. In both cases, easy credit, much of it tied to real estate, and an overly optimistic private sector created a boom that would inevitably lead to a bust. Investor expectations were too aggressive, and when reality became apparent, financial markets corrected themselves.

If there is a loss of investor confidence arising from any catastrophic financial event in Europe, the impact upon American banks, investors, and the overall domestic economy will likely be swift and significant.

Source: John Mone, associate professor at Wash. College; Richard S. Greene and Christopher M. Meilner of University of California at Davy; J. Bradford Delong of University of California at Berkeley.