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CHANGE IN YOUR POCKET, CHANGE IN THE MARKET: ANALYSIS OF THE FINANCIAL CRISIS EFFECTS ON CONSUMERS AND MARKETS

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Abstract. *Major financial crises often have widespread impacts beyond the economic fallout. This article examines the influence of crises like the Global Financial Crisis (GFC) of 2008 on consumer behaviour and market dynamics. It analyzes changes in spending patterns, preferences, and brand loyalty using quantitative data from surveys as well as financial and firm reports. Key theories linking wealth effects and uncertainty with consumption are also explored. Research into this topic has been done to have a more clear view about the buying behavior and market condition. There also have been made conclusions how to deal with the market and consumers if the identical crisis happens.*

Keywords: *Global Financial Crisis* **(***GFC), consumer behaviour, spending patterns, consumer confidence, brand switching, market dynamics, businesses during recession.*

ИЗМЕНЕНИЯ В ВАШЕМ КАРМАНЕ, ИЗМЕНЕНИЯ НА РЫНКЕ: АНАЛИЗ ВЛИЯНИЯ ФИНАНСОВОГО КРИЗИСА НА ПОТРЕБИТЕЛЕЙ И РЫНКИ

Аннотация. *Крупные финансовые кризисы часто имеют широкомасштабные последствия, выходящие за рамки экономических последствий. В этой статье рассматривается влияние кризисов, таких как Глобальный финансовый кризис (ГФК) 2008 года, на поведение потребителей и динамику рынка. В ней анализируются изменения в моделях расходов, предпочтениях и лояльности к бренду с использованием количественных данных опросов, а также финансовых и корпоративных отчетов. Также изучаются ключевые теории, связывающие эффекты богатства и неопределенности с потреблением. Исследования по этой теме были проведены для того, чтобы иметь более четкое представление о поведении покупателей и состоянии рынка. Также были сделаны выводы о том, как обращаться с рынком и потребителями, если произойдет идентичный кризис.*

Ключевые слова: *Глобальный финансовый кризис (ГФК), поведение потребителей, модели расходов, уверенность потребителей, переключение брендов, динамика рынка, бизнес во время рецессии.*

Introduction

The global financial crisis of 2008 left a lasting impact on the world economy, reshaping consumer behavior and market dynamics in significant ways. In times of financial turmoil, individuals and businesses are forced to make drastic changes in their spending habits and investment strategies. As we continue to face ongoing economic challenges, it is crucial to understand the relationship between financial crises and consumer behavior to navigate through uncertain times and make informed decisions.

Understanding Financial Crisis and Its Emergence

The financial crisis of 2008 was a global economic downturn that had far-reaching effects on various aspects of society. It was triggered by a combination of factors, including the bursting of the United States housing bubble, the subprime mortgage crisis, and the failure of major financial institutions.

The crisis began with the collapse of the housing market in the United Kingdom. During the early 2000s, there was a rapid increase in the demand for housing, which led to a surge in home prices. Lenders took advantage of this situation by offeringsubprime mortgages to borrowers who did not meet the usual credit requirements. These mortgages had low interest rates initially but would increase significantly after a certain period.

The subprime mortgage crisis exposed the risky practices of financial institutions that had packaged and sold these mortgages as complex financial products known as mortgage-backed securities[1] (MBS). These MBS were then traded on the global financial market, with investors unaware of the underlying risks. When the housing market collapsed, the value of these MBS plummeted, causing significant losses for investors and financial institutions.

The crisis had a cascading effect on the global financial system. As major financial institutions faced insolvency due to their exposure to these toxic assets, trust in the banking sector eroded, leading to a freeze in interbank lending. This credit crunchseverely affected businesses and consumers, severely affected businesses and consumers, making it difficult for them to obtain loans and access credit.

The repercussions of the financial crisis were felt across various sectors of the economy.

The stock market experienced significant declines, wiping out trillions of dollars in investor wealth. Unemployment rates soared as businesses struggled to stay afloat and had to implement cost-cutting measures, including layoffs. Many individuals lost their homes and savings, leading to a decline in consumer spending and confidence.

Furthermore, the crisis had a profound impact on governments and public finances. In order to stabilize the financial system and stimulate economic growth, governments around the world implemented massive bailouts and stimulus packages. These measures resulted in a surge in public debt, with many countries struggling to restore fiscal balance for years to come. The GFC also highlighted the vulnerabilities and flaws in the global financial system. It exposed the inadequacy of regulations and oversight, with institutions taking excessive risks and engaging in unethical practices. This led to a push for financial reforms and tighter regulations to prevent a similar crisis from occurring in the future.

The Impact of Financial Crisis on Consumer Behavior

During the Global Financial Crisis (GFC) of 2008, there was a significant impact on consumer behavior. This economic downturn had a profound effect on individuals' purchasing habits and financial decision-making.

[1] MBS - a debt security that is collateralized by a mortgage or a collection of mortgages. An MBS is an asset-backed security that is traded on the secondary market, and that enables investors to profit from the mortgage business without the need to directly buy or sell home loans. (https://corporatefinanceinstitute.com/resources/fixed-income/mortgage-backed-security-mbs/)

According to the survey concluded by Market Probe International in 2009 and 2010 of represents opinions from people in 7 countries during crisis period (Vinod Sharma, Jayant Sonwalkar, 2013). The report shows how in each of there countries 60% and more consumers believed they have been living during recession. All countries had the same effects, like brand switching from luxurious brands to the national and simple ones and failing in consumer confidence in the housing and shopping markets. People tend to save more money and then buy the products from their favourite luxurious brand, but it lead to the delay in major purchases [Vinod Sharma, Jayant Sonwalkar, 2013].

One of the most noticeable changes in consumer behavior during the FC was a shift towards frugality and a preference for saving money. As people witnessed the collapse of major financial institutions and the loss of jobs and wealth, there was a heightened sense of financial insecurity. This led to increased caution and a desire to reduce spending and prioritize saving [Carroll, C. D., Slacalek, J., Tokuoka, K., & White, M. N. 2017].

Research conducted (report by Bain & Company//Luxury Goods Worldwide Market Study//8th Edition, 2009) during this period indicated that consumers indulging in luxury or discretionary items like paintings and luxurious cosmetic brands. In the report there have been researched market dynamics of these items in Europe and Asia to see whether it affects to each country. More practical and simple items were preffered by buyers and this change in behavior can be attributed to an increased emphasis on financial stability and ensuring that basic needs were met.

Additionally, consumers became more price-sensitive and looked for discounts, promotions, and value for money (The Rise of the Value Conscious Shopper, A Nielsen Global Private Label Report//March 2011). They actively searched for bargains and compared prices before making purchasing decisions. Retailers responded to this shift by offering more discounts and incentives to attract customers.

Furthermore, trust in financial institutions and businesses was significantly shaken during the FC. Consumers became more skeptical of marketing messages and were less willing to trust companies' claims. They sought more information before making purchases and relied heavily on online reviews, recommendations, and word-of-mouth referrals.

The impact of the FC on consumer behavior extended beyond immediate purchasing decisions, which means their consumer confidence decreased. It also influenced long-term financial planning and investment strategies. People became more risk-averse and less willing to take on significant debt or make speculative investments. There was a renewed emphasis on financial literacy and the importance of building a secure financial future. Comsumers were educated how to act if the identical crisis happens.

The GFC also highlighted ethical and social considerations in consumer behavior.

Consumers became more conscious of the impact their purchases had on the environment, labor practices, and corporate social responsibility. They started favoring brands and products that aligned with their values and actively boycotted or criticized companies that were perceived as unethical or exploitative.

The financial crisis and changes in market dynamics

During the FGC affected the market dynamics were greatly affected. The crisis had a profound impact on the global economy, leading to a significant decline in economic activity and widespread financial instability. Numerous factors contributed to the crisis, including the bursting of the United States housing bubble, the expansion of subprime mortgage lending, and the failure of major financial institutions.

As the crisis unfolded, market dynamics experienced major shifts. One notable change was the sharp decline in stock prices and market valuations. [10] Stock markets around the world plummeted, with some experiencing their largest single-day drops in history. For example, the Dow Jones Industrial Average in the U.S. fell by over 50% between 2007 and 2009 [Kimberly F. Luchtenberg, Quang Viet Vu, 2015].

Furthermore, the crisis led to increased market volatility, as investors became increasingly risk-averse and uncertain about the future. This resulted in heightened levels of panic selling and a flight to safety. Traditional safe-haven assets, such as gold and government bonds, saw significant increases indemand [Okuyama, K., 2018].

Another notable aspect of the market dynamics during the Financial Global Crisis was the increased regulation and government intervention. Policymakers implemented various measures to stabilize financial markets and prevent a complete collapse of the global economy. These included bank bailouts, fiscal stimulus packages, and the establishment of new regulatory frameworks.

The crisis also had a significant impact on the credit market. As financial institutions faced mounting losses and liquidity issues, lending standards tightened significantly. Access to credit became more difficult for individuals and businesses alike, leading to a decline in consumer spending and investment. In terms of international trade, the crisis led to a sharp decline in global trade volumes. The contraction in demand and the tightening of credit conditions made it challenging for firms to engage in international trade. This had widespread implications for export-dependent economies and further exacerbated the economic downturn.

Adaptation strategies for businesses amidst financial crises

The Global Financial Crisis (GFC) of 2008 was a challenging time for businesses worldwide. As the crisis unfolded, companies had to quickly adapt to the new economic sphere in order to survive and mitigate the impact of the financial turmoil.

One evident adaptation strategy that businesses embraced during the FC was cost-cutting measures. Faced with decreased customer demand and shrinking profit margins, companies had to tighten their belts in order to weather the storm.

This included reducing staff, implementing hiring freezes, and streamlining operations to eliminate unnecessary expenses. By taking these measures, businesses aimed to reduce their financial burden and ensure their long-term sustainability.

Another important adaptation strategy during the GFC was diversification. Many companies realized the need to expand their product lines or target new markets to compensate for declining sales in their traditional markets. By diversifying their offerings, businesses sought to capture new sources of revenue and minimize their dependence on a single market or product.

This strategy allowed companies to protect their businesses by spreading risks across different areas.

Furthermore, businesses adapted by focusing on customer retention and loyalty. During times of financial uncertainty, customer loyalty becomes paramount. To retain existing customers, businesses implemented strategies such as personalized marketing campaigns, enhanced customer service and loyalty programs. By prioritizing customer satisfaction and building strong relationships, businesses aimed to not only retain their customer base but also increase their chances of gaining referrals and attracting new clients [Caprariello, P. A., & Reis, H. M. 2013].

Another significant adaptation strategy during the GFC was embracing technological advancements. Technology played a crucial role in helping businesses navigate the economic downturn. Companies invested in advanced software systems and automation to streamline their operations, reduce costs, and improve efficiency. By embracing technology, businesses were able to adapt to changing market conditions more effectively and gain a competitive edge.

Collaboration and partnerships with other businesses were also common adaptation strategies during the FC. By joining forces, businesses could leverage each other's strengths, resources, and share risks. Collaborations enabled companies to access new markets, enhance their product offerings, and benefit from economies of scale, ensuring their survival in otherwise challenging times.

Lastly, businesses turned to financial restructuring and capital optimization to adapt during the FC. This involved renegotiating loan terms, exploring alternative financing options, and improving cash flow management. By taking proactive measures to restructure their financial obligations, businesses aimed to strengthen their balance sheets and alleviate the financial pressures caused by the crisis.

A look at the future: how crisis was dealed and possibilities to face it again

The global financial crisis of 2008 became one of the most serious events in the history of the world economy. Numerous countries, commercial banks, and corporations fell victim to this crisis, which originated from the U.S. housing market deficit and spread worldwide. Governments and global financial institutions took several measures to address the global financial crisis of 2008 and prevent its further development. Here are some of them:

1. Credit liberalization program: Governments of various countries reduced interest rates to stimulate consumption and reduce workforce turnover. This helped stabilize the banking system and instill confidence in the economy [Cohen-Cole, E., Duygan-Bump, B., Fillat, J. L., & Montoriol-Garriga, J., 2009].

2. Fiscal stimuli: Many governments implemented fiscal packages aimed at supporting consumption and investments. These stimuli included tax reductions and government loans designed to contribute to economic recovery [Cohen-Cole, E., Duygan-Bump, B., Fillat, J. L., & Montoriol-Garriga, J. 2009].

3. Financial institutions assistance: To prevent the bankruptcy of commercial banks, many governments allocated funds for their recapitalization. This helped strengthen the financial system and prevent further market decline [Cohen-Cole, E., Duygan-Bump, B., Fillat, J. L., & Montoriol-Garriga, J. 2009].

4. Financial sector regulation: The 2008 crisis revealed significant weaknesses in the financial sector. Governments and institutions implemented regulatory measures to address these vulnerabilities. In the financial sector, various governments and international financial organizations took measures to strengthen the regulation and supervision of financial institutions to prevent a recurrence of a similar situation in the future [Cohen-Cole, E., Duygan-Bump, B., Fillat, J. L., & Montoriol-Garriga, J, 2009].

5. Global cooperation: World leaders and financial organizations collaborated to coordinate crisis mitigation measures. G20 meetings[2] were held to discuss ways to stabilize the global economy and enhance control over financial markets. The combination of these measures achieved some positive results. Global markets gradually recovered, the banking system became more reliable, and economic growth resumed. However, the consequences of the crisis were long-lasting, and in some countries, recovery took years

Addressing the global financial crisis of 2008 serves as a lesson to the global community about the need to strengthen the financial system and regulate financial markets. Studying the causes and consequences of this crisis has helped create a more robust financial system, preventing similar situations in the future.

How we can address if similar situation happens?

First and foremost, ensuring a robust regulatory framework is critical. Stricter regulations on banks and financial institutions can help prevent excessive risk-taking and promote greater transparency and accountability. This can involve implementing stronger capital requirements, imposing limits on leverage, and conducting regular stress tests to assess the resilience of banks and financial institutions. Additionally, regulators should closely monitor the activities of non-bank financial entities such as hedge funds and private equity firms to prevent any systemic risks from developing.

Risk management practices must be strengthened across the board. This includes promoting effective risk assessment and risk mitigation strategies within banks and financial institutions. Encouraging the use of more sophisticated risk models and stress testing methodologies can enhance the ability of institutions to identify and manage potential threats.

Implementing robust risk governance frameworks and ensuring that risk culture is deeply embedded within organizations can further contribute to preventing and addressing financial crises.

Central banks play a crucial role in stabilizing financial markets during times of crisis. In the event of another financial crisis, central banks can adopt expansionary monetary policies such as lowering interest rates or implementing quantitative easing to boost liquidity and stimulate economic activity. Central banks should also maintain regular and open communication with markets and the public to provide reassurance and maintain confidence.

International cooperation and coordination are imperative in dealing with a global financial crisis. Governments, central banks, and regulatory bodies should collaborate to address challenges collectively and mitigate the impact on the global economy.

[2] More about G20 meetings - https://www.ecb.europa.eu/pub/conferences/shared/pdf/g20framework/Keynote_Turalay.pdf?edff74ffbc8baa7e40d93a445ead7067

Cross-border risks require the establishment of common strategies to prevent the contagion of a crisis. Strengthening international financial institutions, such as the International Monetary Fund (IMF)[3], and establishing adequate mechanisms for crisis resolution can minimize the impact of a crisis and ensure a coordinated global response.

Investor protection is crucial in managing a financial crisis. Measures should safeguard the interests of investors and depositors, including the establishment of deposit insurance schemes and the implementation of robust securities and investor protection regulations.

Enhancing financial literacy and awareness among the general public can empower individuals to make informed financial decisions and protect themselves during times of crisis.

In conclusion, learning from past financial crises is essential, leading to continuous improvements in regulations and risk management practices. Regular assessments and audits of financial systems and institutions can help identify vulnerabilities and shortcomings.

Governments should establish independent review bodies to critically analyze the performance of regulators and make strategic recommendations for improvement.

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[3] **The International Monetary Fund (IMF)** is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

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