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DECLARATION

I hereby certify that this material which I now submit for assessment on the programme of study leading to the award of Masters in Business Administration (International) is entirely my own work and has not been taken from the work of others save to the extent that such work has been cited and acknowledged within the text of my work.

Signed:

Date:

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ABSTRACT

The current state of the economy shows a clear indication that there is a global recession and the financial markets are crumbling. The property bubble has burst, GDP has dropped more than predicted in the last two years, unemployment rates soar and some of the world largest financial institutions either have been nationalized or face nationalisation. Governments are at the centre of this crisis as they stand accused of inappropriate regulation of the financial market and using the tax payer's money in a bid to save banks which were irresponsible. This is basis of what this dissertation explores; its aim was to conduct primary research in an attempt to answer the research objectives, which were to measure the general awareness of the recession, how it came about and who was to blame; Along with an attempt to establish whether government intervention in the financial market is necessary either by way of stricter regulation or nationalization. As a result of the finding of the survey, the sample population affirmed that it is essential for the government to intervene as that is why they are put in power, to prevent and to resolve any problems which the economy is faced with, whether this be through nationalisation or to impose stricter regulations on banks.

The research was carried out to establish whether government intervention was necessary in the financial market. Therefore, to get the best possible response the sample participants were individuals who are involved in the financial market as well as business owners. The survey was administered to them via email. A total number of twenty responses were gathered, then this collected data was analysed using spreadsheet techniques to reach the final findings.

Chapter 1

Introduction

Research background

The busting of the dot com bubble occurred in 2000, which saw multiple trillions of dollars wiped off some of the fastest growing publically traded technology companies. During the period leading up the bursting of the bubble, the US Federal Reserve had increased interest rates seven times ¹. With the increases in interest rates US economic growth began to slow and lose the momentum. The NASDAQ, a stock market index used to follow the stock performance of technology and growth companies, peaked at an all time high of 5,048.62 on Friday 10th March 2000 ². The fall from this level signalled the end of the dot com bubble.

The slowing economy and the subsequent downturn in the financial markets meant that the US economy began to fall into a recession. Investor confidence in the markets was further damaged by the September the 11th terrorist attacks. The September 11th terrorist attacks in New York affected not only the US economy, but also those of Europe and Asia. The US government pushed through a stimulus package in order to try and restart economic recovery and growth whilst the Federal Reserve began to cut interest rates under the supervision of then chairman, Alan Greenspan. The Federal Reserve made 13 consecutive rate cuts from May 2000 until June 2003, reducing interest rates to their lowest level in 25 years. These rate cuts significantly reduced the cost of borrowing in order to encourage spending and a return to economic growth.

In the two decades prior to the bursting of the dot com bubble, there had been a gradual deregulation of the financial markets. Since the early 1980s congress had repeatedly tried and failed to repeal the Glass-Steagall Act of 1933. In 1984 and 1988 the senate passed bills that would lift the major restrictions of the

Glass-Steagall act, but both times these were blocked, and again in 1991 and 1995. In 1996 with the support of the Federal Reserve board chaired by Alan Greenspan, the senate expanded a loophole created in the 1987 reinterpretation of section 20 of the Glass Steagall Act, rendering it virtually obsolete.

In 1998 further calls for the complete repeal of the Glass- Steagall act were made and in November 1999, after 12 attempts in 25 years, the act was finally repealed and replaced by the Financial Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act. Reforms of financial regulation also occurred in European markets with the UK government removing regulatory responsibility from the Bank of England and setting up a separate regulatory body, the Financial Services Authority (FSA) to oversee the banking and the financial markets.

Over the following years, in a time of low interest rates and cheap debt, financial institutions created ever more complex and innovative products, allowing the packaging of low grade securities into products with better ratings. Collateralized debt obligations, mortgage backed securities and other related Structured Investment Vehicles (SIV) allowed banks and brokers to lend to a sub-prime market, bundle the loans into profitable SIV products with artificially lower risk, and then sell the SIV onto other banks, investors and institutions. Many of these sub-prime mortgages had introductory teaser rates for a period of one or two years, to attract sub-prime borrowers to take the loans. However, after the introductory rate period many of these loans became unaffordable for the borrowers. As borrowers began to default on repayments, the US housing boom showed signs of slowing. Reducing the price of real-estate, banks had to write off large losses which also resulted in them becoming more reluctant to lend, especially to a sub-prime market, further slowing the demand for housing which in turn reducing house prices even further.

Many large institutions such as pension funds, insurance companies and investment banks had invested heavily in these SIV's, which then became known as toxic assets, assets that would have to be written off at a loss to the institution. With banks being unaware of the extent of another bank or institution's exposure to these toxic assets, banks became reluctant to lend to one another and overnight the interbank

lending rate spiralled as banks saw lending to other banks and financial institutions as a risky prospect. Credit flow was ground to a halt. This affected high street banks such as HSBC, Barclays and RBS as well as investment banks such as Lehman Brothers, Goldman Sachs and JP Morgan, all of which operate globally, therefore, creating an international problem. As a result governments from around the world had to intervene in order to protect the banking system as we know it today, and one of the first banks to be affected by the slowing of interbank lending was the UK bank Northern Rock. The UK government intervened and saved Northern Rock by buying up a share of the bank, providing security for Northern Rock's savers and creditors. In the following months, Lehman Brothers ran into trouble and the buy-out bid from Barclays was withdrawn, leading to the US government allowing Lehman Brothers to collapse. Banks collapses were extremely rare since the introduction of the Glass-Steagall Act of 1933, and the collapse of a bank the size of Lehman's was unheard of. This further rattled investor confidence, contributing to the credit crisis and creating a global recession.

Research objectives

The research study seeks to examine the extent of awareness amongst the public with regards to the current financial crisis, how it happened?, who is to blame? I have chosen to look at the Glass-Steagall Act and how its gradual erosion and eventually repealing changed financial markets led to rapid growth and the current financial crisis. Along with reviewing the previous act and changes I intend to look at the current proposals being put forward for stricter regulatory controls on financial institutions in order to restore economic stability such as that seen in the previous six decades. 'Would a re-instatement of the Glass-Steagall Act, or similar reforms prevent a future economic crisis?'

Another aspect which this study looks into is government intervention in the financial market i.e. banks, whether or not this is necessary. For example The Royal Bank of Scotland grew to become a global

banking giant before its near collapse, which was prevented as a result of intervention by the UK government, which now owns an 84% stake in the bank.

By looking over the Glass-Steagall act I hope to learn about the regulatory controls that maintained economic stability for over six decades, and how the removal of these controls changed the financial markets, allowing retail banks to engage in activities which were previously the domain of specialized investment institutions. And how financial reform is required to return stability to markets and put in place measures to prevent a future repeat of the current economic crisis.

Research design

Literatures were reviewed in order to gain knowledge of existing secondary data, this Rowley and Slack(2004) confirmed is a vital aspect, as every research must be based on existing knowledge, in order to give the readers an overview of the information which was consulted for the development of the research.

In order to achieve the research objectives stated above, the best approach was to interact with the stakeholders, directly involved in decision making i.e. financial regulators government officials, however due to the lack of time and unavailability of such sources. A survey in the form of a questionnaire was developed as a result of the reviewed secondary data, which was distributed amongst bank officials/employees, financial analysts, business owners and members of the general public as an appropriate measure of data collection from which final conclusions could be drawn. The questionnaire consisted of mainly open ended questions and was pilot tested on 5 sample participants in order to examine the understanding of questions and responses which gave scope for corresponding changes

which needed to be made. Finally the assistance of spreadsheets was used to analyze the data collected from the survey and findings were presented using pie and tables.

Research layout

This research consists of five main sections;

Section one is “Introduction” where a brief introduction is given on the research topic.

Section two is “Literature Review” which presents existing information and secondary data associated to the research study and critically examines the research topic.

Section three is “Research Methodology and Methods” which discusses and describes the research design and the research activities undertaken.

Section Four is “Data Analysis and Findings” where results of the questionnaire was presented and analyzed using the appropriate statistical tools.

Section Five is “Conclusion” which summarizes the research findings and draws a conclusion from the research study, and explaining the limitations of the research.

Chapter 2

Literature Review

Introduction

In this part, a revision of the relevant literature is undertaken, Fink (2005) define a literature as being systematic and explicit for the purpose of identifying, evaluating and synthesizing the existing body of completed work by researchers, scholars and practitioners. In order to reach the research objective, a critical review was conducted to examine the published literature in relation to the main parts which is deregulation in the financial markets.

The Glass- Steagall Act

Many economic and political factors led to the financial crisis that began in 1929, but the general breakdown of the U.S. banking system during the period from 1929 to 1932 certainly played a significant role in the crisis. It was this systemic failure that led Congress to review and reform the Federal Reserve System and the national banking system.

The Banking Act of 1933 also known as the Glass-Steagall Act, was a law that established the Federal Deposit Insurance Corporation (FDIC) and introduced banking reforms in the United States. The act was introduced Following the Great Crash of 1929, in which one of every five banks in America failed. The engagement of banks in market speculation was blamed for the crash, and as a result the Banking Act was designed to control this⁴.

The Glass–Steagall Act consists of two separate United States laws which were both put forward by Democratic Senator Carter Glass, a former Secretary of the Treasury, and Democratic Congressman

Henry B. Steagall, Chairman of the House Committee on Banking and Currency. The first Glass-Steagall Act of 1932 was enacted in an effort to stop deflation and expand the Federal Reserve's ability to offer assets, such as government bonds as well as commercial paper. Another objective of the act was to separate commercial banking from investment banking.

Congress accomplished this separation through the application of several techniques. First, it applied direct prohibitions to the activities of certain commercial banks. Congress narrowly limited the types of investment activities in which national banks and state-chartered banks that were members of the Federal Reserve System could engage. The law permitted the banks to act as agents for their customers in the trading of securities without recourse, but generally prohibited banks from trading securities for their own accounts. The law also banned banking institutions from any issue of securities.

While the law prohibited the banks from purchasing any shares of stock of any corporation, they could purchase "investment securities" for their own account under certain limitations and could also purchase, deal in, and underwrite obligations of the federal government and general obligations of states and their political subdivisions.

Another major regulatory change of the Glass-Steagall Act was the elimination of legal affiliations between member banks (national and state) and investment banking firms. The act banned national banks and state banks which were members of the Federal Reserve System from maintaining affiliations with any organization engaged principally in the issuance, underwriting, or distribution of securities. The Federal Reserve System was introduced so the government would guarantee deposits in banks in the event of a bank failure, in a similar way to how the Bank of England currently guarantees savers deposits in the UK.

These provisions were intended to build a wall between commercial and investment banking. To understand why this position was taken, it is important to consider a number of factors, including:

- (1) The expansion of commercial bank involvement in the securities business during the 1920s;
- (2) The apparent effects of this extension of commercial banking into the securities field;
- (3) Early legislation and regulations to this development were ultimately unsuccessful;
- (4) The reaction of Congress when these effects became apparent during congressional hearings from 1931 to 1933.

Regulation before the Glass-Steagall Act

There have been two broad approaches to banking; the first is the English model, based on a distinct divide between institutions engaged in commercial and investment banking. From this perspective, the law views investment banking as a risky, speculative venture and an inappropriate activity for an institution responsible for carefully looking after deposits from the public. The alternative, the German model, combines investment and commercial activities in a single enterprise. This approach is defended on the grounds of efficiency and security. The efficiency of the German model is based on the fact that the information sources and the business skills necessary for success in the investment banking business are similar to those needed in commercial banking. The German model supposedly provides a more secure investment strategy because it diversifies the banks portfolio.

The English model of banking had been widely accepted by 1864 and some commentators say that this is shown by the fact that the National Bank Act of 1864, which arguably required the separation of commercial and investment banking. The act defined the general powers of national banking associations to include "all such incidental powers as shall be necessary to carry on the business of banking,"⁵ but did not explicitly allow banks to deal in securities. Despite the limitations of the National Banking Act, the banking system gradually changed towards the German model. This was driven by the development of a trust company after the civil war, along with increasing competition from commercial banks and the

continuing competition between state and national banks. A typical trust company under state corporate law was authorized to trade in securities, and soon became a full-service institution offering its customers both banking and investment services.

With growing competition from trust companies, the state-chartered commercial banks sought additional powers from the state legislatures and by the early 1900s most state banks had been granted these powers. Many of the same powers to engage in investment activities were already possessed by trust companies; however, national banks were left out. By 1922 a number of the banks had formed securities affiliates, and 62 of the commercial banks were involved in investment banking activities. By 1932 there were approximately 300 securities affiliates of commercial banks, two thirds of which were owned by national banks, and the majority of the remaining banks were owned by state banks. By this time the English model of banking, dividing commercial and investment banks, had been almost discarded and considered no longer relevant.

This growth had not gone un-noticed with extensive criticism as early as 1920, from a regulatory authority in report of the comptroller of the currency, which questioned the legality of the securities affiliate system. It also noted functional problems with the use of affiliates, including conflicts of interest between management of the commercial bank and management of the affiliate, and the impropriety and risk of using bank deposits to fund speculative activities. Despite criticisms, Congress chose not to address the activities of commercial banks and their securities affiliates. Instead Congress had made amendments extending the corporate powers of national banks allowing them to trade marketable obligations in the form of bonds, notes and/or debentures commonly known as investment securities. The amendments to the McFadden Act allowed the comptroller, the existing federal bank regulator, to determine what types of securities investments were appropriately marketable; therefore, the only limiting principle was the "marketability" of these securities, a description so broad that almost any public issue of bonds could be included as a proper investment.

In 1929 J. Pole, then comptroller of the currency, noted that trust and securities fields were likely to be the area of greatest future growth in commercial banking. During the period from 1927 to 1929 the commercial banks and securities affiliates had become more and more involved in investment banking, and shortly after Pole's statement followed the market crash of 1929 and by 1933, almost 9,000 commercial banks had failed.

In 1929 Ferdinand Pecora led a Senate committee to investigate the stock market crash. The results of their investigation led to indictments, jail terms, and the creation of the Securities and Exchange Commission, and the Glass-Steagall Act, designed to prevent banks from getting too big to fail. A second Glass Steagall Act also set up to ensure that investment banking and stock promotion was separated, protecting commercial banking customers. These two acts were then passed as law in 1933 and the FDIC insurance was also established, insuring customers' banks deposits up to \$100,000.

The Gramm-Leach-Bliley Act

The Glass Steagall Act and its controls remained in place until the 1960s when the banks began to question the restrictions prohibiting them from engaging in the securities industry, and allowing them to compete more effectively with other institutions such as mutual funds and foreign banks. Over the coming years and decades numerous questions and challenges were raised against the Glass Steagall Act, regarding its necessity and relevance. Slowly experts began to view the act as obsolete in the face of competition from other banks and securities firms. The banking industry had sought the repeal of the Glass Steagall Act for many years citing it was unfair in the light of outside competition and changes should be made allowing banks to engage in investment and securities activities. The explanation given was that individuals usually put more money into investments when the economy is doing well, but they put most of their money into savings accounts when the economy slumps. By repealing the Glass Steagall

Act, banks would be able to do both 'savings' and 'investment' at the same financial institution, which would be able to do well in both good and bad economic times.

Prior to the new act, most financial services companies were already offering both saving and investment options to their customers; the most notable of which was Citibank, which had merged with Travellers Insurance in 1998 creating CitiCorp, the largest and most profitable company in the world. Although the merger fell foul of the 1956 Bank Holding Company Act (BHCA), Citibank was tolerated under the assumption there would be a change in the legislation which was being considered. The Gramm-Leach-Bliley Act passed in November 1999, also known as the Financial Services Modernization Act of 1999, allowed banks, brokerages and insurance companies to merge, therefore, making the CitiCorp merger legal. Legislation was introduced in the U.S. Senate by Phil Gramm and in the U.S. House of Representatives by Jim Leach and the then chairman of the House Commerce Committee, Thomas J Bliley.

Since the passing of the legislation there has been a lot of consolidation between banks. Some investment banks found it difficult to establish themselves in commercial banking due to their lack of a high street presence. Retail banks on the other hand found it difficult to convincingly package insurance products. As a result, banks tended to merge or buy other banks and many have expanded into investment banking but have found it difficult to package their banking services. An exception to this is the example of Barclays which successfully operates retail and investment banking operations as well as acting as an insurance company.

The act has been widely criticized and the changes in legislation it allowed have been blamed for the current financial crisis. Paul Krugman, a Nobel Prize-winning economist has called Senator Phil Gramm "the father of the financial crisis" due to his support of the Act.⁶ Another Nobel Prize winning economist Joseph Stiglitz argues that the Gramm-Leach-Bliley Act helped create the current financial crisis.⁷

During his presidential campaign, President Barack Obama argued that the deregulation of the financial markets as a result of the act had helped cause the crisis.⁸

The act does however, have defendants, including co-author and former Senator Phil Gramm who argued ‘if GLB was the problem, the crisis would have been expected to have originated in Europe where they never had Glass Steagall requirements to begin with. Also, the financial firms that failed in this crisis, like Lehman, were the least diversified and the ones that survived, like J.P. Morgan, were the most diversified’⁹ and ‘Moreover, GLB didn't deregulate anything. It established the Federal Reserve as a super regulator, overseeing all Financial Services Holding Companies. All activities of financial institutions continued to be regulated on a functional basis by the regulators that had regulated those activities prior to GLB.’¹⁰

Former President, Bill Clinton, who was in office during the signing of the Bill, responded to criticism saying ‘"I don't see that signing that bill had anything to do with the current crisis. Indeed, one of the things that helped stabilize the current situation as much as it has is the purchase of Merrill Lynch by Bank of America, which was much smoother than it would have been if I hadn't signed that bill.... On the Glass Steagall thing, like I said, if you could demonstrate to me that it was a mistake, I'd be glad to look at the evidence.’¹¹

Economists Robert Ekelund and Mark Thornton commented on the act saying ‘in a world regulated by a gold standard, 100% reserve banking, and no FDIC deposit insurance, the Financial Services Modernization Act would have made "perfect sense" as a legitimate act of deregulation, but under the present fiat monetary system it "amounts to corporate welfare for financial institutions and a moral hazard that will make taxpayers pay dearly.’¹²

The last decade and how we got here

As of December 1999, the FTSE 100 hit its all time high of 6,950.6 **13** and in March 2000 the NASDAQ reached its all time high of 5,132.52. This then ushered in what has now turned out to be one of the worst decades on record for investors. Later that year and the bursting of the so called dot com bubble resulted in a 45.9% fall in the NASDAQ between September 2000 and January 2001, and by October 2002 it had fallen to a low of 1,108.49, a 78.4% drop from its all time high.¹⁴

The ‘dot-com bubble’ was a speculative bubble running between 1995 and 2000 during which stock markets saw their equity value rise rapidly from growth and speculation in the new internet sector and related fields. The period was marked by the founding of a group of new Internet-based companies commonly referred to as “dot-coms.” Companies were seeing their stock prices shoot up if they simply added an ‘e-’ prefix to their name and/or a ‘.com’ to the end.

A combination of rapidly increasing stock prices, market confidence that the companies would turn future profits, individual speculation in stocks, and widely available venture capital created an environment in which many investors were willing to overlook traditional metrics such as P/E ratio in favor of confidence in technological advancements. The venture capitalists saw record-setting rises in stock valuations of dot-com companies, and therefore, moved faster and with less caution than usual; choosing to mitigate the risk by starting many contenders and letting the market decide which would succeed. The low interest rates in 1998–99 helped increase the start-up capital amounts. Companies offered their services or end product for free with the expectation that they could build enough brand awareness to charge profitable rates for their services later with the motto ‘get big fast’ reflected in their strategy. The business model relied on operating at a sustained net loss initially in order to build market share, for which the companies relied on financing from venture capitalists and especially initial public offerings, to pay their expenses as they had no other source of income.

A stock market bubble is a self-perpetuating rise or boom in the share prices of stocks of a particular industry and occurs when speculators note the fast increase in value and decide to buy in anticipation of further rises, rather than because the shares are undervalued. As a result many companies become grossly overvalued and when the bubble 'bursts', the share price fell dramatically with many companies going out of business.

Over 1999 and early 2000, the U.S. Federal Reserve had increased interest rates six times and the economy was beginning to lose speed. The dot-com bubble burst, numerically, on March 10, 2000. Possible causes for the collapse include the findings of the United States vs. Microsoft case as well as the subsequent multi-billion dollar sell orders for major bellwether high tech stocks including companies such as IBM, Cisco and Dell. The massive initial batch of sell orders processed on Monday, March 13 triggered a chain reaction of selling that fed on itself as investors, funds, and institutions liquidated positions. Other reasons include the poor results of Internet retailers following the 1999 Christmas season which was the first strong signal that the 'Get Rich Quick' Internet strategy was flawed for most companies. These retailers' results were made public in March when annual and quarterly reports of public firms were released.

The multi-trillion dollar losses resulting from the failure of the dot com dream was then followed by further problems as a number of large companies ceased trading as a result of bad investments. Some companies had borrowed heavily in order to finance their 'get big fast' strategy and now with increasing interest rates, decreasing investor confidence and falling markets, they came under pressure. Among these were several communication companies who sold their assets for cash or filed for bankruptcy. The largest of these was WorldCom which was found to have used illegal accounting practices to overstate its profits by billions of dollars, and their stock price crashed when the irregularities came to light. Within days of the revelations, WorldCom filed for the second largest bankruptcy in US history until that date. A similar fate followed for the other communications companies with their executives being accused or

found guilty of fraud and misusing shareholders money, with reputable investment banks such as Merrill Lynch and Citigroup being fined by the US Securities and Exchange Commission for misleading investors.

Enron was formed in 1985 after merging Houston Natural Gas and InterNorth. Enron's share price, which hit a high of \$90 per share in mid-2000, had fallen to \$1 by the end of November 2001 causing shareholders to lose \$11 billion. Enron had been able to hide billions of dollars of debt resulting from poor investments and failed projects and deals through accounting loopholes, special purpose vehicles, and poor financial reporting.

In August 2001 Enron's share price had been falling as a result of investor questioning the company's complex operations and complicated structure which was proving near very difficult to understand¹⁵, combined with unconventional accounting practices¹⁶. The complex operations and non-transparent financial statements raised questions with investors and analysts^{17, 18} with one analyst stating 'it's really hard for analysts to determine where [Enron] are making money in a given quarter and where they are losing money.'¹⁹ Following the announcement by the SEC that's it was investigating several suspicious deals made by Enron the share price continued to plummet before eventually filing for Chapter 11 Bankruptcy on December 2nd 2001.

With a large number of bankruptcies in over a few years, two of them being the largest in US history, investor confidence in financial markets dwindled and market indexes such as the FTSE and NASDAQ suffered.

This difficult period between 2000 and 2002 caused a shift in investment practices towards safer securitized debt, debt secured by underlying assets. A series of interest rate cuts by the US Federal Reserve and in inflow of significant amounts of foreign money contributed to easy credit conditions in the US, fuelling both credit and housing bubbles. Relaxed market regulations and a desire by the US

Government to stimulate a slowing economy which was suffering from the after effects of the dot com bubble, the September 11th attacks and the Enron scandal, all contributed to low interest rates and cheap debt. Borrowing became easy and consumers took on an unprecedented level of debt²⁰, and financial innovations as a result of relaxed market regulations meant that the debt could be packaged and sold on to investors. One of the products sold to investors were mortgage backed securities, MBS.

Mortgage Backed securities derived the value from the mortgage payments and housing prices. Backed with a tangible asset, the property on which the debt was secured, the loan was seen as secure investment in a time of increasing property prices. The markets had a vast appetite for these new, seemingly secure investments, and as such the banks and institutions and by 2003 everyone who qualified for a mortgage got one²³. However, the markets wanted more of these investments and so began to lend to subprime borrowers, those with a higher risk of default on repayments.

In the years before the subprime mortgage crisis, the behaviour of lenders changed dramatically. Lenders offered more and more loans to higher-risk borrowers²¹, including illegal immigrants²². The mortgage qualification guidelines began to change, first SIVA (stated income, verified assets) loans became available, where borrowers no longer needed to prove an income, merely 'state' it and show they had money available in the bank. This was then followed by NIVA (no income, verified assets), borrowers just needed to demonstrate they had available funds in their account. This in turn was followed by NINA (No Income, No Assets) sometimes referred to as NINJA loans (No Income No Job or Assets). Mortgage underwriting standards declined during the boom period and the use of automated loan approvals allowed loans to be made without appropriate review and documentation. The automated underwriting software used in the process sped up the approval process increasing the number of approvals.²⁴

The loans were made more appealing and seemingly more affordable with introductory payment holidays and low teaser rates, but as these offers ended, combined with increased interest rates, the loans became less affordable and borrowers began to default on repayments. Lenders then began to retake possession of

the properties in a process called foreclosure. As the number of foreclosures increased exerting a downward pressure on house prices, the full value of the loans could not be recovered and once again investors began to lose confidence in the securitized debt, causing the price to go into a free fall. Many institutional investors such as pension funds and banks had invested heavily in subprime mortgages, which had appeared to be low risk due to the ratings, now found the their underlying assets were worth a fraction of their book value. As a result they incurred heavy losses in relation to their investments in subprime mortgages.

As the value of the underlying assets fell the market for mortgage backed securities collapsed almost overnight, and institutions began to tighten their lending policies as banks and institutions became suspicious of other exposure. Northern Rock, a UK bank began to suffer as the flow of credit in the financial markets dried up. Northern Rock then sought liquidity help from the Bank of England, and news of this led to concerned customers withdrawing their savings, further adding to the problem in September 2007. Investment bank Lehman Brothers which had invested heavily in subprime mortgages suffered unprecedented losses as the value of their underlying investments collapsed. Lehman accrued further losses throughout 2008 and was forced to sell \$6 billion in assets and lost 73% of its share price.²⁵ Investor confidence was further eroded as the US Government did not show signs that it would assist with any financial crisis at Lehman and as last minute attempts to sell to both Bank of America and Barclays fell apart, Lehman Brothers filed for Chapter 11 bankruptcy resulting in the largest one day drop in the DOW Jones index, since the September 11th attacks in 2001.

The failure of Lehman Brothers sent out a clear message to banks and investors alike, what had previously thought to have been impossible, institutions considered too big to fail, would not be guaranteed assistance from the government. This then led to large price decreases in the markets, in

particular share prices of banks, and financial institutions including Halifax Bank of Scotland and one of the world's largest banks, RBS.

Ireland

For over a decade between the mid 1990's until 2007, the Irish economy grew more rapidly than any other in Western Europe. Foreign investment, mainly by American companies provided Ireland with huge sums of capital, and in return Ireland offered a young, educated and English speaking workforce at a low cost, State grants, and a low corporate tax rate along with providing access to the EU's single market. As the boom continued the Irish economy took on buying property with such abandon that there was soon a credit- inflated bubble in property prices. Domestic private-sector credit growth accelerated rapidly from 2003 until the end of 2005, when it peaked at 30%. This was driven to a considerable extent by a phenomenal expansion in mortgage lending and borrowing by companies in the property sector. The analysis of the Irish market by Dr Alan Ahearne of NUI Galway for Bruegel shows that mortgage rates in Ireland were zero or negative between 1999 and 2005 because inflation was much higher than in the rest of the euro zone.

This coincided with greater competition between banks offering attractive mortgage packages such as 100% loans and interest only loans. Competition of this type led to what the report described as "irrational exuberance" in the Irish housing market that saw major investment in housing, resulting in a tripling of house prices in Ireland compared to the rest of the euro zone which increased by just 50%.²⁶ The report claims there were signs of overheating in the property market since 2002, where immigrants which were welcomed into the country had an impact on the property demand. However, the prices which were being paid for property were not justified by the rents people were receiving. The report

states that people were investing in property as they expected to sell at a profit due to the rising prices in the market. When the property bubble burst, it left a legacy beyond the pile of unsold house and bad debt. The property bubble had chipped away the low cost appeal of Ireland as Ireland had become too pricey.

As a result of the turmoil that was seen in the world's financial markets in September 2008, as mentioned above, two major U.S. and four European banks had to be saved from various stages of collapse by a combination of private and public support. This was followed by the U.S. government's decision to reject a financial plan for \$700bn; concerns grew rapidly across Europe over the financial well being of banking institutions. The share prices of Ireland's banks plunged downwards, for instance according to its annual reports: Bank of Ireland, one of Ireland's leading commercial banks, had its share prices valued at €18.8bn in early 2008, but due to the significant drop in its share prices its value was reduced by over 99%. Where the profit which they incurred was €1.95bn in early 2007 dropped to €0.706bn by November 2008.

Shares across the banking sector as a whole fell by 26% in 2008, which was recorded as the largest fall in two decades, with Anglo Irish Bank tumbling by 45% and Ireland largest mortgage provider, Irish Life Permanent (ILP) dipping by 34%, which together with AIB and Bank of Ireland, who account for around three quarters of all deposits in Ireland fell by 16% and 15% respectively. 27

In an attempt to stabilize the Irish financial system the Irish government in September 2008, pledged to safeguard all deposits and debts of six of the country's leading financial institution for a two year period until September 2010. This was done in a bid to improve the banks access to short term funding. The guarantee covers all retail, commercial and inter- banking deposits as well as cover bonds, senior debt and dated subordinated debt at Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life & Permanent (ILP), Irish Nationwide Building Society and the Educational Building Society. The combined

liabilities of these six institutions are estimated at approximately €400bn (US\$570bn), just over twice Ireland's annual GDP in 2007. GDP growth averaged 6% in 1995-2007, the first estimates of GDP (Gross Domestic Product) and GNP (Gross National Product) for 2009 as a whole indicate that GDP was 7.1 % lower than in 2008 while GNP was 11.3% lower than 2008 this according to the Central Statistics Office is the largest decline in output ever recorded in a single year.

After the bursting of the property bubble, the government in January 2009 had to plunge a capital injection of €7 billion into two of Ireland's leading banks, Bank of Ireland and Allied Irish Bank, alongside the nationalization of Anglo Irish Bank after its chairman Sean Fitzpatrick, failed to disclose some €83 million in personal loans. This recapitalization was the equivalent of 4% of the GDP and put the Irish bail-out roughly in line with those of most developed countries. A forecast by the International Monetary Fund (IMF) predicts a 13.5% drop in Irish GDP by the end of 2010, and that banks are likely to post total losses of about €35 billion by the end of the year if they cannot offload their worst assets. Depending on when and where the remaining losses fall, some banks may even be wiped out. Thus the government face a choice of deciding how much of the banking industry's loss to inflict on bank shareholders and how much on taxpayers. The government seemed to have erred on the side of favouring shareholders, mainly to minimize the amount of capital it would have to inject into the banks.

The Irish Minister for Finance Brian Lenihan last September gave details of a plan to take bad loans with face value of roughly €77 billion off the balance sheets of the country's biggest banks. These will go to the new agency called the National Assets Management Agency (NAMA), in return for €54 billion in government-backed bonds. With this the government intends to achieve three main goals: firstly to restore trust in banks by cleaning their books by removing bad debt so that it makes it easier for the government to lift its guarantee on their debts; secondly, they aim to avoid enriching bank shareholders at the expense of the tax payer; thirdly, to avoid taking banks into state ownership.

The financial regulator announced this March 2010 that Irish ‘bad bank’ NAMA will receive a 47% discount on initial toxic property loan transfers. NAMA intends to acquire over 1,200 individual toxic property loans with a nominal value of €16 billion for a consideration of €8.5 billion. NAMA has already transferred its first batch of loans in March from Bank of Ireland and hopes to transfer AIB’s and Anglo Irish bank by the end of April and the remaining before the deadline set by the EU Commission in February 2011. 28

With regards to these proposals the Head of Financial Regulation, Matthew Elderfield said,

“It is important that our banks move to a strong capital position as soon as possible and that we draw a line under the Irish banking crisis. Sufficient capital is an essential ingredient to ensure that banks can withstand future losses. We have applied a robust, realistic and prudent capital standard informed by our own detailed analysis and by emerging best practice internationally.”

The Minister for Finance during his speech on Central Bank Reform Bill 2010 stated that the government strategy to resolve the banking crisis is proving to be a successful one. He believes that public confidence in the system of regulation which has been put in place is growing by the day, and believes that the work of NAMA to clean up the banks’ balance sheets is winning the respect of the public. The IMF has stated that the measures which are in place will preserve the financial stability of Ireland and ensure that our banks do not suffer any future loss. There also seems to be favourably commentary on an international basis as the Minister for Finance stated that respected newspapers such as the Financial Times, Wall Street Journal, as well as the Economist magazine and Newsweek supported the bold steps which the Irish Government has taken in a bid to ratify the financial crisis. 29

The Minister also stressed the urgency of the Central Bank Reform Bill as a crucial step to put in place a domestic regulatory framework for financial services;

- that meets Government objective of maintaining the stability of the financial system;

- that provides for the effective and efficient supervision of financial institutions and markets; and
- That safeguards the interests of consumers and investors.

However, the effectiveness of such a Bill or the measures put in place by the Irish government to clean up the balance sheets of the Irish banks is yet to be seen.

Chapter 3

Introduction

The rationale of this chapter is to provide in detail, the research design which was implemented by the researcher to explore the current financial meltdown our economy is faced with, the main objectives of this study is as follows;

- Awareness amongst the public with regards to the current financial crisis,
 - how it happened?
 - who is to blame?
 - how it can be resolved?
- Would a re-instatement of the Glass-Steagall Act, or similar strict reforms prevent a future economic crisis?
- is government intervention necessary with regards to banks? i.e. bail outs?

Due to that fact the financial crisis and recession is a very recent issue, which some may have not witnessed before, the academic material available on this topic is scarce. Hence the need for primary research with regards to its awareness and impact on our economy, providing useful insight for the research objectives stated above. This section provides an insight to the research design and an explanation of the research hypothesis, research methodology and strategy which

were used for the study, alongside explaining and justifying the sampling, data collection and analysis process.

Research Methodology

Having determined the research objectives and questions, alongside the completion of the literature review the next step is to discuss in detail the research design methodology: the research philosophy, the research approach, the research strategies which were used in this study. From the previous chapter it can be determined that there is limited material available in academic journal format about the implications of a financial meltdown and its effects on our economy, therefore this research can be seen as an effort to fill this information gap and its main purpose being to create ideas, patterns or to simply generate hypotheses rather than testing them, thus rendering this research as exploratory. As Creswell (2003) explains the exploratory research can be defined as a research where there are a very few earlier studies to which one can refer for information for a particular problem. Robson (2002) cited in Saunders et al (2007) defined an exploratory research is a valuable means of finding out ‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light’.

Cooper (2008) stresses that exploration is particularly useful when researchers lack a clear idea of the problem they will meet during their study, thus through exploration the researcher develop concepts more clearly, establish priorities, develop operational definitions and improve the final research design. The biggest advantage to an exploratory research is that it is flexible and adaptable to change, thus one conducting such a research must be willing to change the direction as a result of new data that emerges. Adam and Schvaneveldt (1991) as cited in Saunder et. al

(2007:134) argue that the flexibility inherent in exploratory research does not mean absence of direction to the enquiry but simply that the focus is initially broad and becomes progressively narrower as the research progresses. In terms this study it can be said this is a study focused to obtain an overview of the people's perceptions with relation to the financial meltdown and attempt to narrow their responses in order to answer the research questions.

The paradigm

The research paradigm is a structure which consists of accepted theories and methods; which explain how the research should be conducted. Saunders *et al.* (2007) offer a useful model, the ‘research process onion’, which, from the outside layers inwards, helps inform the research approach and choice of research strategy, beginning with the adoption of a research philosophy and thereafter peeling away each layer until the fifth layer is reached; defining data collection methods. This approach, also suggested by Remenyi *et al.* (2000), is used in this study.

LAYER	APPROACHES
1. Research philosophy	Positivism, Interpretivism, Realism
2. Research Approaches	Deductive, Inductive
3. Research Strategies	Experiment, Survey, Case study, Grounded theory, Ethnography, Action research
4. Time Horizons	Cross Sectional, Longitudinal
5. Data Collection Methods	Sampling, Secondary data, Observation, Interviews, Questionnaires

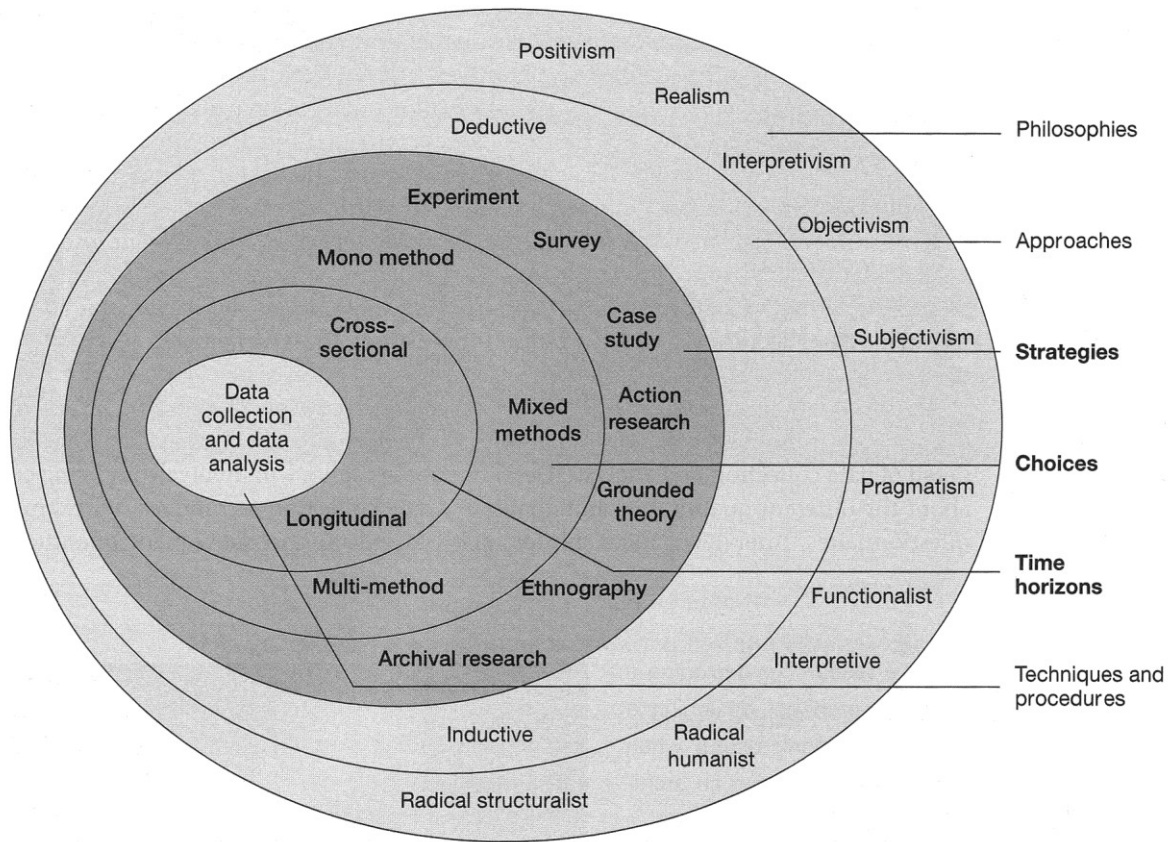


Figure:1- Research Onion

(Source: Saunders et. al. 2007)

Research Philosophy

In this section the researcher examines three major ways of thinking about research philosophy, each of which contains important differences which will influence ones perspective about the research process. Positivism philosophy is based upon the notion that only clear facts will lead to the production of creditable data. According to Remenyi (1998) as cited in Saunders et al. (2007:103), under positivism one will prefer “working with an observable social reality and that

the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientist”.

As described by Saunders (2007) Realism relates to scientific enquiry, the essence being that what the senses show us as reality is the truth, thus reality is whatever the independent human mind makes it to be. Although it is believed that realist philosophy is a basis of the positivists approach Denscombe (2003) suggests that realism does not allow for more than one reality to exist. Interpretivism is defined by Saunders (2007) as an epistemology that states it's necessary for the researcher to understand differences between humans in our role as social actors, this derives from two intellectual traditions; Phenomenology and symbolic Interactionism. The former referring to the way in which we as humans make sense of the world around us and the latter, where we are in a continual process to interpreting the social world around us, thus the author suggests that the researcher has an ability to empathize and enter the respondent's social world and attempt to understand it from their perspective.

Taking all of the above in to consideration, I believe it is not possible to classify this study as either positivistic/realistic or interpretivistic, however for arguments sake it can be classified best as more interpretivistic, purely because no theories have been found to describe the study phenomenon. The financial crisis is a very new issue, and its effects and implications in our economy are still underway, and are nearly seen on a daily basis, therefore studying this issue as a real, certain or precise phenomenon, and collecting data which is factual and unambiguous is difficult. On the other hand however the study aims to acquire facts and causes of behaviour, thus rendering the characteristics of a positivistic research philosophy.

Research approach

As discussed by Saunders (2007) there are two different kinds of research approaches which the researcher can adopt; Deductive approach where the researcher develops a theory and hypotheses and design a research strategy to test that hypotheses or, the Inductive approach, where data is collected, analyzed and a theory is developed by the researcher. Creswell (1994) as cited in Saunders (2007:119) suggests that a topic in which there is a wealth of literature from which a theoretical framework can be defined, lends itself to deduction. However on research topic which is new, and on which there is little existing literature, it is appropriate to render it inductively by generating data and analysing and reflecting upon what theoretical themes that data is suggesting. For the purpose of this study the researcher has decided to use a combination of both approaches purely due to the complexity of the topic. The research undertaken will be primarily qualitative, where sufficient literature is available to develop a hypotheses, the topic is a present debatable issue thus inductive based on the social aspect of human behaviour.

Research strategy

A vital step in the research design is the strategy which the researcher chooses for collecting the data. According to Saunder (2007) research strategy is guided by the research questions and objectives, the extent of existing knowledge, the amount of time and other resources available and alongside the researchers own philosophical underpinnings. The author emphasis that no one strategy is superior to another, the strategy one implements is only creditable if it enables the researcher to answer the particular research questions and objectives. There are a number of strategies from which one can choose from as shown in the table below, each catering for different kinds of research.

Research strategy	Form of research question	Control over behavioural events?	Focuses on contemporary events?
Experiment	how, why	yes	yes
Survey	who, what, where, how many, how much	no	yes
Archival Analysis	who, what, where, how many, how much	no	yes / no
History	how, why	no	no
Case Study	how, why	no	yes

Figure:2 – Table for Different type of Research (Yin 1994:6)

For the purpose of this research, the survey strategy has been adopted by use of a questionnaire as the primary data collection tool. In order to justify the selected methodology the researcher briefly shall touch upon the limited of the other strategies below. The experimental research strategy as Hakim (2000 cited in Saunders 2007) explains is used to study casual links; whether a change in one independent variable produces a change in another dependent variable, as this study does not wish to explore any casual links, this strategy is rendered unsuitable. Robson (2002:178) defined case study as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. It simply allows the researcher to obtain a more broad understanding of the research but is deemed unsuitable for this research study due to its limited ability to explore variables from which data can be collected. Action Research, Bryman and Bell (2007) describe to be one which requires the researcher and client to work closely in the analysis of a problem and in the revealing of a solution, thus action research differs from other research strategies because of its explicit focus on action, therefore this strategy again fails to satisfy the purpose of

this study. The grounded theory and the ethnography research strategy were both rejected in this study as the former is focused on theory building approach whereby a theoretical framework is developed by the collection of data which is then tested to verify the results, and latter due to its time consuming aspect as the researcher needs to immerse herself in the social world being researched as completely as possible.

Survey as stated by Saunders (2007) is the most popular and most commonly used approach in strategy. Most frequently it is used to answer questions such as, who, what, when, where, how much and how many questions, thus tends to be used for an exploratory and descriptive research. One of the main reasons the survey technique is popular is because it allows the collection of large amounts of data from a sizable population in a highly economic way. Surveys are often obtained by the use of questionnaires being administered to a sample thus data is standardized, allowing easy comparison. There are a number of techniques which may be used to collect data, such as e-mail, post, telephone and in-person; this allows a certain degree of flexibility and gives more control to the researcher as it's easier and less expensive to generate findings from the sample that represents a whole population, than collecting the data from the whole population. The survey strategy as mentioned by Creswell (2003) provides a quantitative or numeric description of trends, attitudes or opinions of a population by studying a sample of that population. For the reasons stated above, the researcher found that this strategy would be the most suitable and proved to be successful to fulfil the research objectives.

Data Collection

There are two distinct ways by which data can be collected for a research; Primary research and Secondary research. Walliman (2006) refers to data as the raw material of the research and the choice of collection should be made based upon the amount of data required, the validity and relevance of the data.

Secondary Data

Clark (1998) defined secondary research as data which has been collected, collated and analyzed by other as opposed to that which you have collected yourself. For the purpose of this study the main resources are government websites, respectable journals such as The Financial Times, The Wall Street Journal, The Economist and their respective blogs. Other sources of information was sought from official websites such as The British Bankers Association, FSA, SEC and other such related sites alongside the use of books and academic journals.

Primary data is collected through observation, according to Saunders (2007) observation involves; the systematic observation, recording, description, analysis and interpretation of people's behaviour, the author suggests that if the research study questions and objectives are concerned with what people do, the obvious way in which to discover this is to observe them. As the purpose of this study is to measure the awareness of the implications of the financial crisis, and to find whether government intervention is necessary in the bail out of banks, the best approach was to interact with the desired proportion of the public directly in order to get use and reliable data. Ideally the researcher sought to gain interaction for the purpose of the research, with authority figures who are directly involved in the decision making for this country, the financial regulators, the United Kingdom and the United States Treasury. However due to time

constraints of this research and the availability of such authority figures, the more effective method to generate the required amount of data was by way questionnaire to those effected directly by the financial crisis. Fundamentally, there are two different types of questionnaires; self administered and interviewer- administered. For this particular research study the self administered was selected as it usually completed by the respondents on their own without the presence of the researcher. The researcher saw this fit as most of the research questions required to examine the hypotheses could be put in a standardised form and in hope that it would be understood by all the respondents in the same way.

Questionnaire Design

Bourque and Clark, (1994) as cited by Saunders *et al.*, (2007) stated that for a researcher to design questionnaires, they should adopt questions used in other questionnaires, adapt questions used in other questionnaires or develop their own questions. According to Saunders (2007) the internal validity and reliability of the data the researcher collects and the response rate which the researchers achieves depends, on a large scale on the design of the questions, the structure of the questionnaire and the severity of the pilot testing.

Information as to the design of the questions for this study was initially collected from the literature review. A pilot study of the questionnaire was conducted on 5 target sample, in order to obtain an understanding of the questions and responses. With the feedback which was obtained from this pilot questionnaire, the researcher was then able to make sufficient modifications and refine the questions where needed alongside the removal of some questions as well as adding new ones, Thus leaving the researcher with the final questionnaire which was

used as a vital part to collect necessary data for this research. This consisted of eighteen questions fifteen of which were open ended questions, the target audience for the questionnaire was mainly individuals with a background or some kind of involvement in the financial sector, including bank officials, financial analysts and business owners; due to the assumption that the selected target audience would have extensive knowledge on the selected area of study.

Data Analysis

Data analysis was formal and informal. Informal analysis e.g., scaling and looking for patterns or repetitive behaviour (Collis and Hussey, 2003), was performed carefully to avoid losing the richness and meaning of the qualitative data during the process of reduction. Content analysis, mainly associated with positivist research, is a formal approach to analysing qualitative data (Collis and Hussey, 2003), and is a method of examining written texts by sampling and coding textual content. In order to analyse the data correctly, common themes, words and phrases were extracted from the questionnaire feedback and a questionnaire analysis was performed using standard computer spreadsheet applications.

Ethical Issues

Ethical issues concern all aspects of the research process from planning the project, applying for access to the companies and individuals, collecting, analysing and to reporting data. The researcher found that the most important aspect in the collection of the data for this study was the anonymity of the participants especially as the numbers were small. Due to the sensitive nature of the study and most participants being employees of huge financial institutions, some institutions being the centre of the financial meltdown or contributed greatly to the cause, the

participants had to be reassured a number of times that any opinions generated from their questionnaire and their identity shall be strictly confidential, and not exceed beyond the limitations of this study.

Chapter 4

Introduction

While the literature review section gave detailed insight on important aspects of the current financial crisis; this section presents a detailed analysis of the results obtained through the questionnaire findings. The researcher aims to approve or disapprove the research hypothesis and attempts to relate the collected data to the related theories discussed in the literature.

Findings, Analysis and Discussion

Findings from the questionnaire are explained below. The findings have been shown in the form of charts with their respective percentage formats and each question (Q.1 - Q.18) presented is the exact questionnaire which was given to all participants.(See Appendix 1). As mentioned in the previous chapter, the target audience for this questionnaire were of two categories: first being individuals with some sort of an involvement in the financial sector, and second being business owners. The sample number was 20 participants, who were contacted by telephone to first seek their approval for the questionnaire, which was then emailed to them. All further correspondence was done via email.

Quantitative data editing and coding

Demographics of the participants

Under Demographical sampling, the questions were decided on the participant's details in order to divide the respondents into their sampling group. The response can be seen below;

Question 1 - Gender Distribution

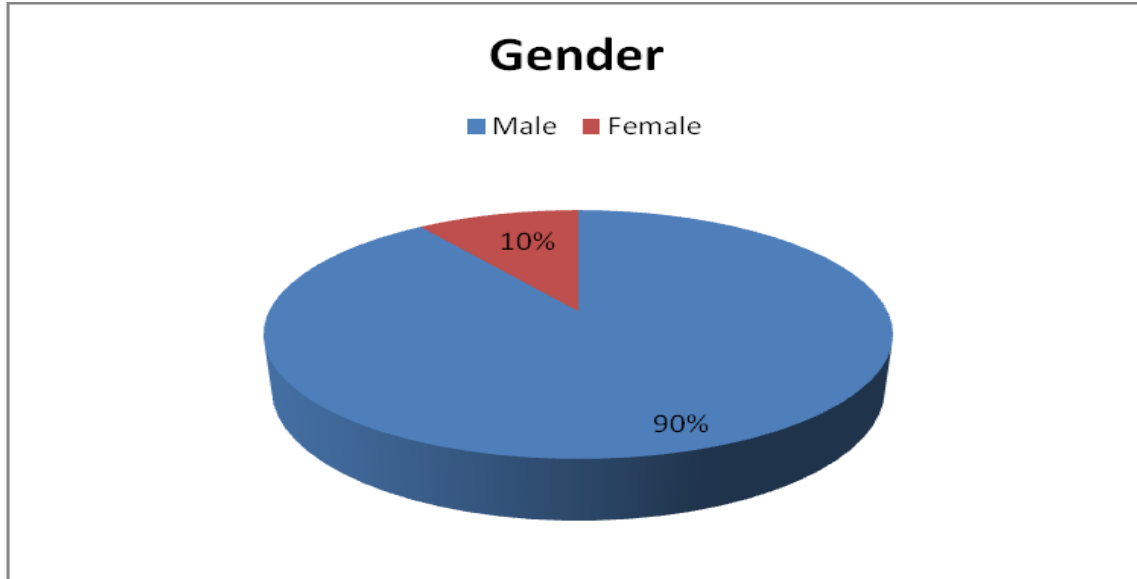


Figure 3: Chart of gender distribution

Gender	Response Percentage	Response Count
Answer options		
Male	90%	18
Female	10%	2
Answered questions		20
Skipped question		0

Figure 4: Table of gender distribution

Question 2 - Age Distribution

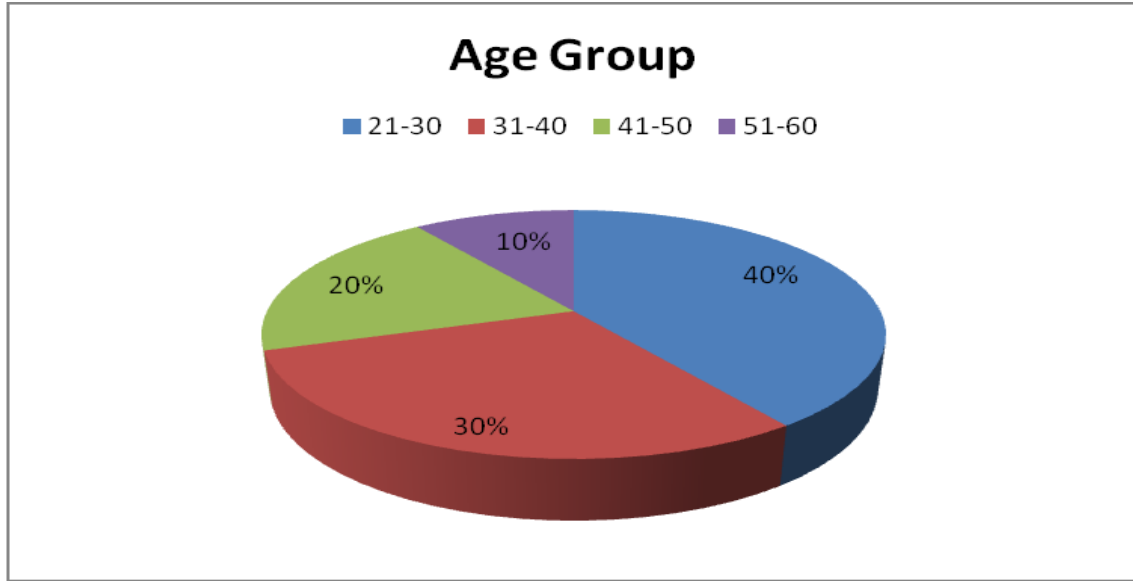


Figure 5: Chart of Age Distribution

Age Group	Column1	Column2
	Response	Response
Answer Options	Percentage	Count
21-30	40%	8
31-40	30%	6
41-50	20%	4
51-60	10%	2
Answered questions		20
Skipped questions		0

Figure 6: Table for Age Distribution

Question 3 - Annual Income Distribution

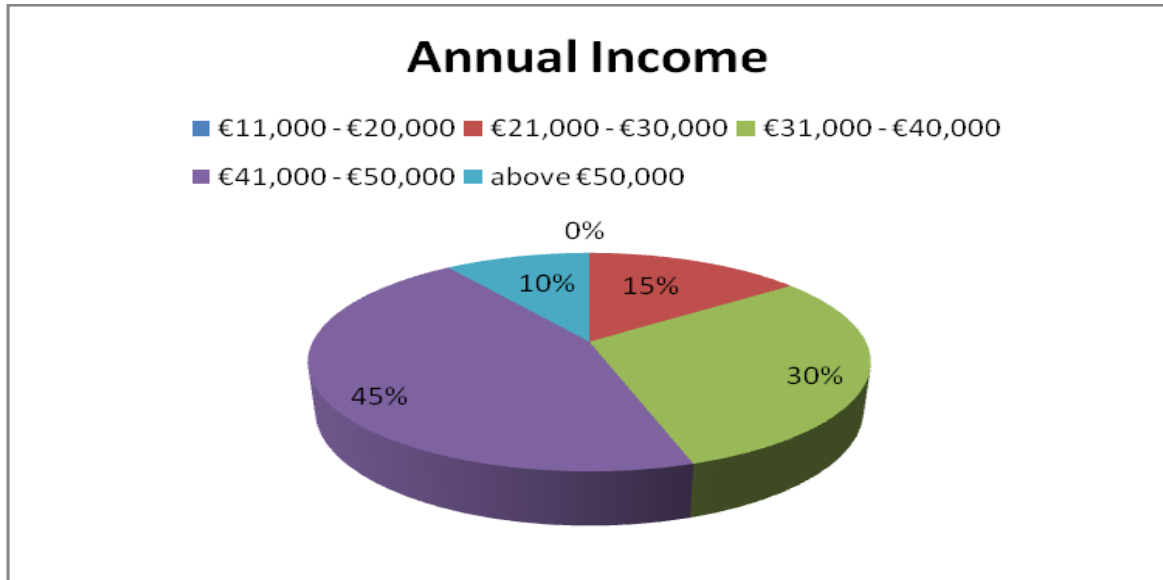


Figure 7: Chart for Annual Income

Please select your annual income		
Answer Options	Response Percentage	Response Count
€11,000 - €20,000	0	0
€21,000 - €30,000	15%	3
€31,000 - €40,000	30%	6
€41,000 - €50,000	45%	9
above €50,000	10%	2
Answered questions		20
Skipped questions		0

Figure 8: Table for Annual Income

Questions 4 - From your perspective, do you think our economy is still in recession?

If YES why? If No why?

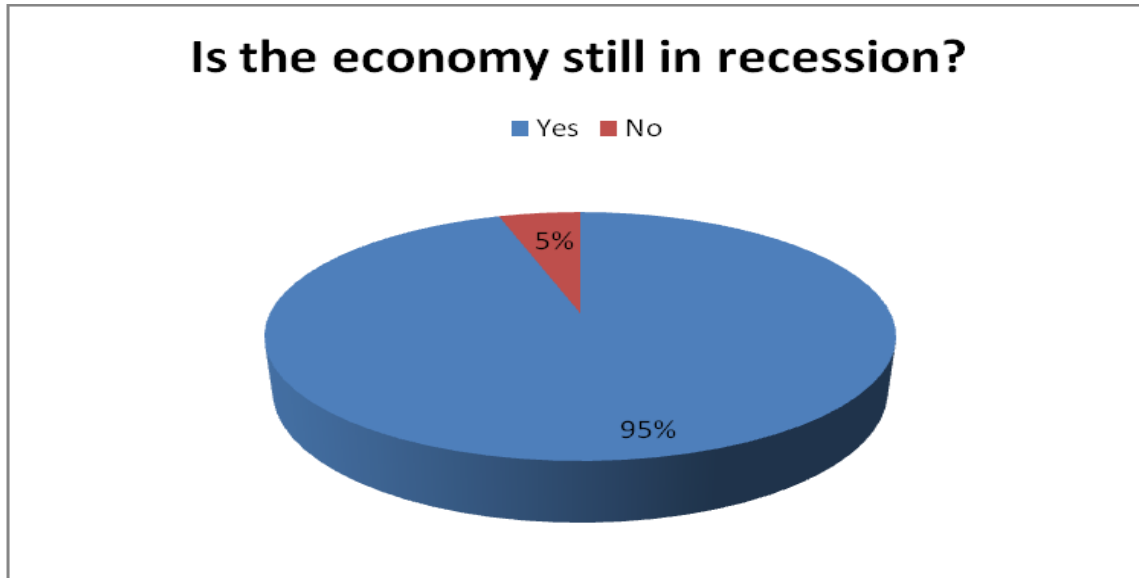


Figure 9: Chart for is the economy still in recession, Yes/No

Is our economy still in recession?		
Answer Options	Response Percentage	Response Count
Yes	95%	19
No	5%	1
Answered question		20
Skipped question		0

Figure 10: Table for Yes/No, Is the economy still in recession?

From the above chart and table it can be established that the majority of the participants believe that the economy is still in recession. Participants were also asked ‘why’ they believed the economy was or was not in recession; this question was open ended and the findings are shown below.

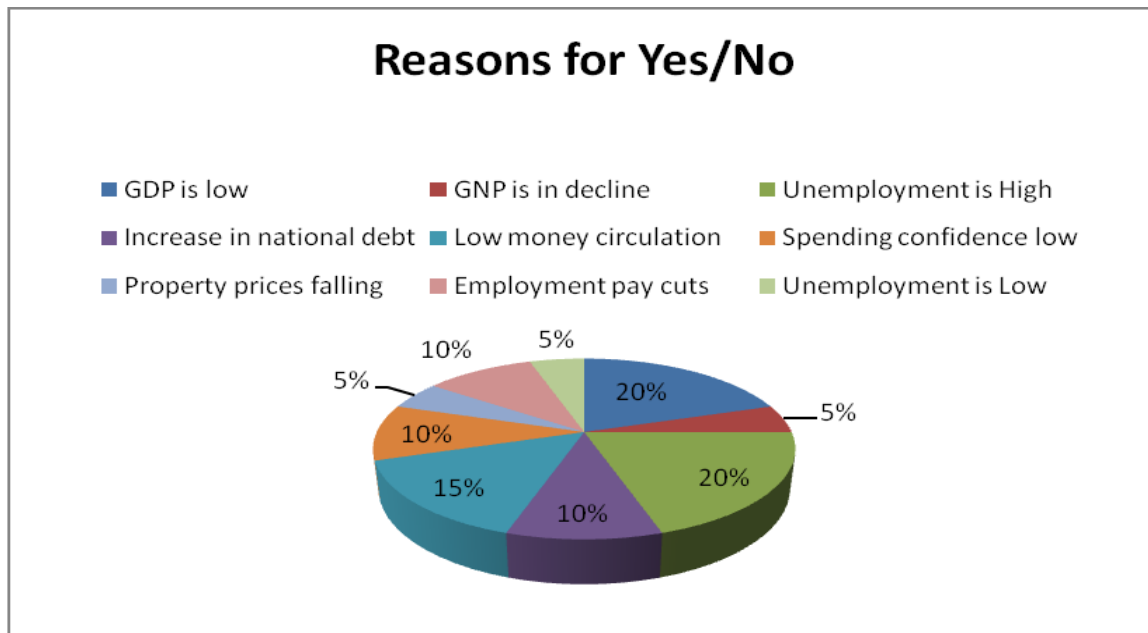


Figure 11: Chart for Reasons for Yes/No

As established in Figure 10, 95% of participants believe our economy is still in recession and Figure 11 shows a variety of reasons as to why the participants believe so. 20% of the participants believe that it is due to the high unemployment rates, Irish full-time employment fell by 193,200 on an annual basis in 2009 with declines in both male (-152,500) and female (-40,800). The unemployment rate rose to 13.1% in 2010 according to the Central Statistics Office. Another 20% believe that we are still in recession due to GDP being at its all time lowest. As the new CSO figures on GDP are more than €1 billion below Dec. 2009 projections. Other factors such as domestic economic growth measured in GNP terms has not grown and remains weak (5%), GDP growth averaged 6% in 1995-2007, the first estimates of GDP (Gross Domestic Product) and GNP (Gross National Product) for 2009 as a whole indicate that GDP was

7.1 % lower than in 2008 while GNP was 11.3% lower than 2008 this according to the Central Statistics Office is the largest decline in output ever recorded in a single year.

An increase in national debt (10%), employment pay cuts (10%) where bonuses are no longer available and basic salary has gone down, participants stated that their monthly salary does not go as far as it used to, and it just about meets their basic living needs. 10% believe the recession is still continuing due to a lack of confidence of the public to spend money, as people are attempting to save rather than spend needlessly. Therefore resulting in 15% who suggest that low circulation of money is the reason the economy is still in recession. 5% of the participants believe the falling prices and the decline in the property market shows that the economy is still in recession. The above percentage figures and reasons provides the research with indicators to prove the economy is still in recession, however there is also a 5% of the participant that believe that the economy has pulled itself out of recession due to their belief that unemployment figures being low. This is an interesting response to receive as the CSO figures mentioned above clearly indicate that the unemployment rates are still high in Ireland

Question 5 - In your opinion who or what is most responsible for our current economic crisis?

This question was an opened ended question and the aim was to gain an insight as to exactly who/what the public believe is to blame for our current economic crisis. Participants gave a variety of answers and in most cases more than one answer.

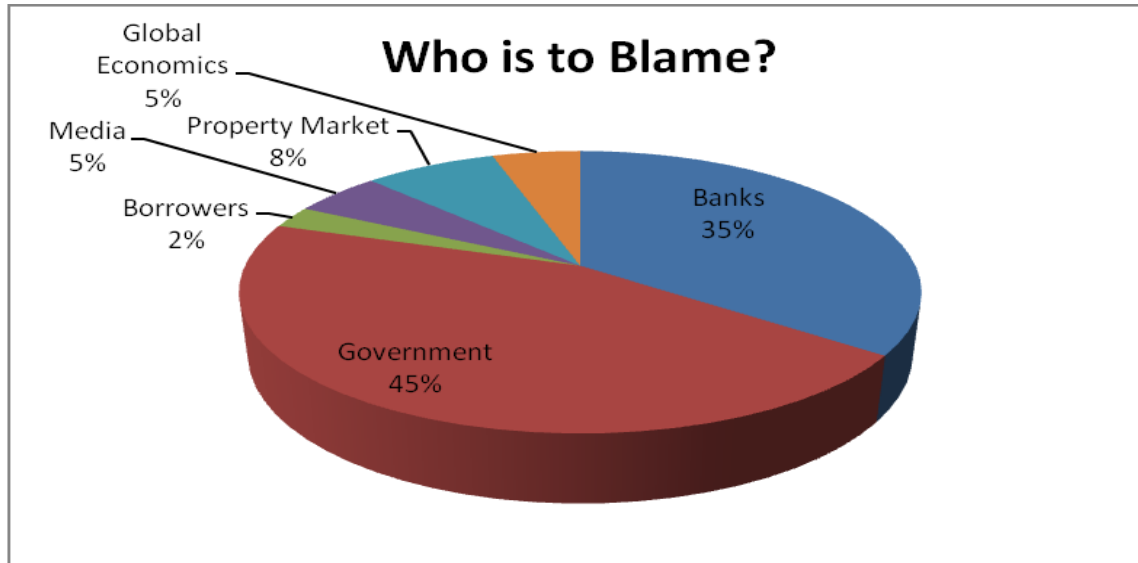


Figure 12: Chart for “who/what is to blame?”

The above figures give a clear indication that the majority of the participants believe the government is the most responsible for the current economic crisis (45%). Participants believed the government’s unwillingness to make and implement key policy decisions before and during the recession, lead to further unnecessary damage. Examples would be policy that encouraged unstable expansion of the property market, leading to the formation of an unsustainable bubble and the lifting of traditional rules for mortgage-lending. Insufficient and “light touch” financial regulation resulted in insufficient control on investment types which ultimately collapsed and created a crisis in confidence and capital. The next most common factor to blame was the banks (35%). Bad banking practices such as the widely seen practice of over valuing loans/assets to artificially drive growth has never been seen on this scale before. Some may even go as far as saying the practice reached a point where the accepted ‘rules’ of banking

were essentially ignored. Add to this the sheer range of financial services products that had been added to portfolios, it helped lead to creation of a credit culture. Participants (5%) also believe a combination of global factors such as key policy decisions undertaken in the United States with regards to banking and regulations, made it a lot easier for banks and financial to lend and borrow money; which in turn created an atmosphere of highly leveraged investments and bad debt – pre-dominantly in the consumer property markets. The media was also blamed by 5% of the participants, claiming they should not have imposed this “ideal” way of living and buying beyond our means as a must. The media was also blamed for causing a state of panic amongst the public at the early stages of recession unnecessarily blowing the concept of recession out of proportion, thus leading to as mentioned above, low confidence in spending and low circulation of money.

Question 6 - Do you feel the government has a role to play in preventing/resolving financial market issues (nationalization of banks/bail outs) or should it be left to the free market?

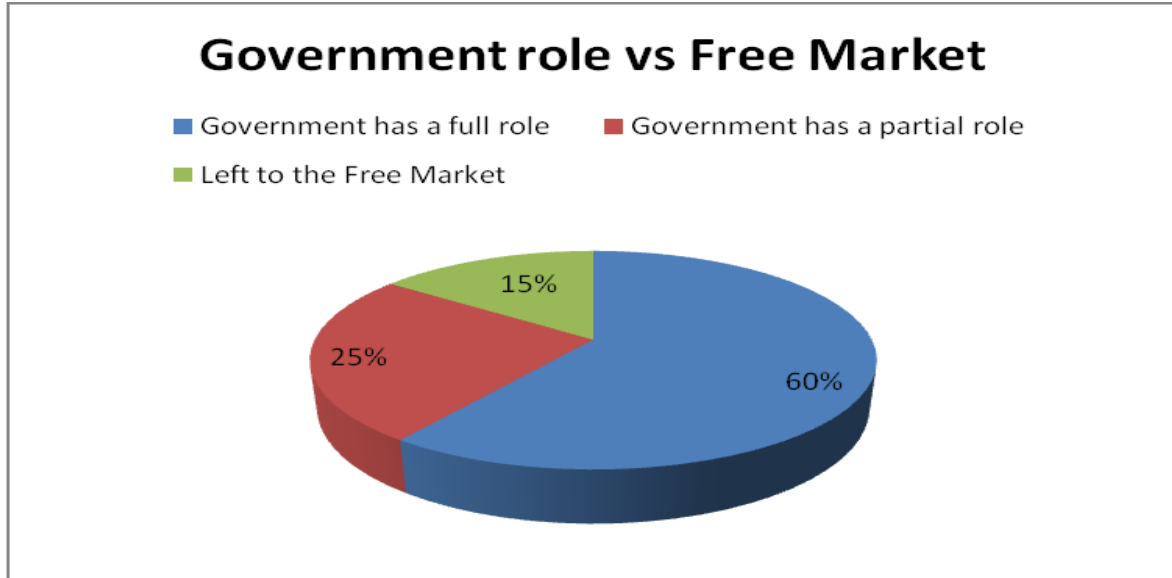


Figure 13: Chart for Government role versus Free Market

Does the government have a role to play versus the free market?	Response Percentage	Response Count
Answer options		
Full Role	60%	12
Partial Role	25%	5
Free Market	15%	3
Answered question		20
Skipped question		0

Figure 14: Table for Government Role versus Free Market

The above figures from the chart in figure 13 suggest that the majority of participants (60%) believe that the government has a vital role to play in preventing /resolving issues in the financial market. They believe the government should be responsible for setting in place regulators and regulations that should prevent mismanagement of the financial system. Participants pointed to Canada as an example where sufficient regulation on property market and banks were put in place before the onset of the global economic crisis. Having done so, Canada buffered major exposure to property backed securities and therefore, avoided the worst of the global recession. However, where the participants believe that the government should step up and intervene, it is also vital for the government to take more control by levying restrictions and consequences on the banks it agrees to bail out.

25% of the participants believe that the government only has a partial role to play in the intervention of the financial market. Whilst the government should be involved to help ensure check and controls are in place alongside strict regulations, any heavy involvement will drastically damage a free market and introduce artificial controls. It is a delicate balance and the best way to describe it is to imagine a mixed approach. Participants believe the government should have been responsible for placing tighter regulations, such as those in Canada, and monitoring the banks closely in order to predict institutions such as Northern Rock and Royal Bank of Scotland from collapsing. However, they believe full nationalisation will be of no benefit due to the inefficiencies, bureaucracy and the general culture of the public sector, all while placing valuable taxpayer money at risk. The nature of the banking system is that it can very easily snow ball and exert too much influence if left completely free. An example one participant used was “several large hedge funds that were able to control the direction of certain investment purely by their financial weight.”

15% of the participants believe that the government should not have intervened at all and that it should be left solely to the market forces. Everyone should be accountable for his or her actions; the general population should not have to pay more tax to bail out irresponsible individuals and institutions. They

believe that when these financial institutions make major profits, these profits are not distributed amongst the taxpayer, so why should the tax payer help bail out the financial institutions when they fail? The free market should be allowed to correct itself by allowing inefficient and mismanaged institutions to go under, leaving room and resources for healthy viable institutions.

Question 7 - Do you feel the government took appropriate measures in an attempt to prevent an economic crisis?

- Was this done at the right time?

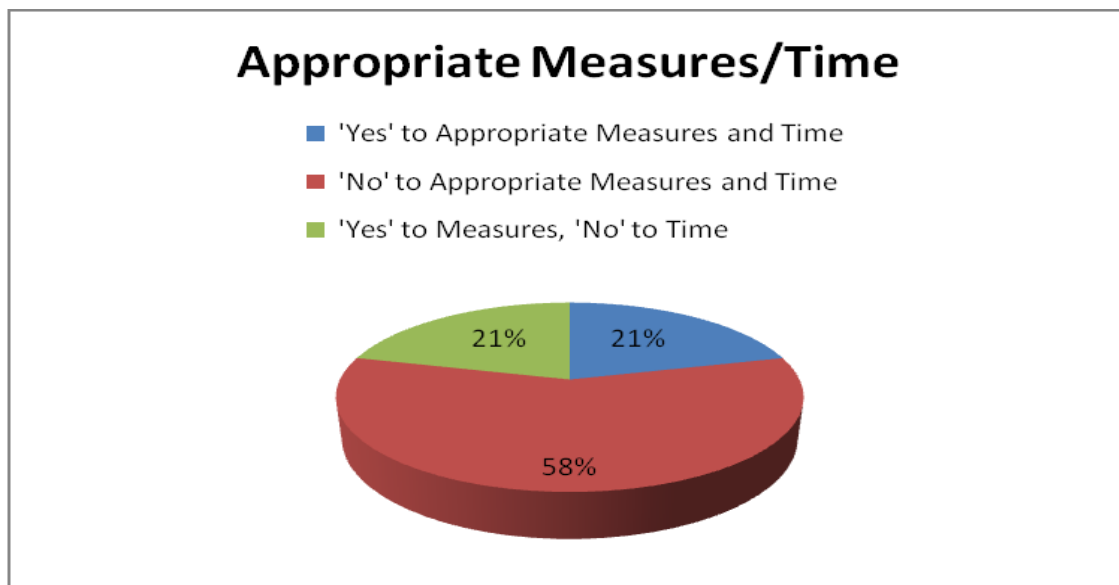


Figure15: Chart for Appropriate Measures and Time

Did the government take appropriate measures? at the right time?		
Answer options	Response Percentage	Response Count
'Yes' to Appropriate Measures and Time	21%	4
No' to Appropriate Measures and Time	58%	11
Yes' to Measures, 'No' to Time	21%	4
Answered question		19
Skipped question		1

Figure 16: Table for Appropriate Measures and Time

As figure 15 shows, 21% of the participants believe the government took appropriate measures in an attempt to prevent the financial crisis and believed this was done at the right time. This is a surprising result considering the severity of the financial crisis, leading the researcher to assume participants believe the recession was unavoidable even if the government had used further regulations.

58% of participants believe that the government did not take appropriate measures to try and prevent the crisis and nor was this done at the right time. One participant said “rather than expand the government balance sheet by just bailing out the Banks, the welfare state and social welfare payments should have been cut very sharply. Forcing the large population of people who are currently unemployed, underemployed or not currently seeking employment into productive employment programmes.” Another

said, “Expanding the Sovereign balance sheet poses the problem that now the average person has been bailed out, and the financial services industry has been overwhelmingly bailed out, and the Corporate Sector has been bailed out.... But who will bail out the Irish Government if there is a run on its balance sheet and the cost of all that debt goes up?? While the government was among the first to react to the crisis with the guarantee, its initial response was lacking in foresight and capital injection which may have boosted confidence in the major banks. Compare this to the UK and the Netherlands which are at the point of reducing their stakes in the bank while the Irish government has had to put a capital injection into ours.”

21% of the participants believe that appropriate measures were taken by the government; however, this was not done so at the appropriate time. They believe the right steps were taken eventually, but only as a response to the global crisis, not in an attempt to prevent it. The government could have acted earlier, however, it is doubted that they had the political weight to do so. To act earlier would have required action whilst growth was still being experienced, leading to possible political ramifications for a sitting government who was already trying to avoid a general election. The government was correct in its handling of the repercussions of a recession, however, the government should have done more to try and prevent it in the first place. For example, the property bubble expanding to an unsustainable level without appropriate intervention.

With the majority of participants believing the government did not take appropriate action, or the action they took was too late, it might reflect on the scope and severity of the economic hardships faced throughout financial sector and business communities. While those who believe the government took appropriate action, might do so because they were shielded to some degree. This is a prime example how the economic crisis can affect different groups and influence their thoughts on how well a regulatory body, such as the government, is functioning.

Question 8 - What is the biggest difference now in our economy, compared with that of 5 years ago?

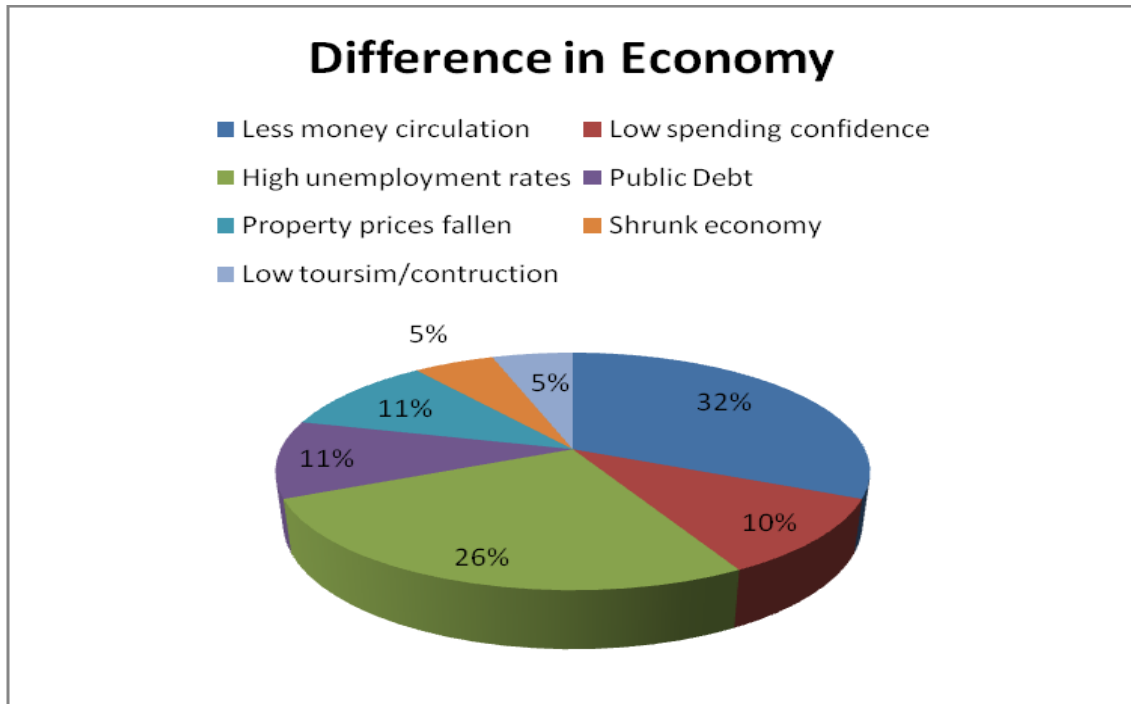


Figure 17: Chart for Difference in the Economy

Difference in the Economy		
Answer options	Response Percentage	Response Count
Less money circulation	32%	6
Low spending confidence	10%	2
High unemployment rates	26%	5

Public debt	11%	2
Property prices fallen	11%	2
Shrunk economy	5%	1
Low tourism/construction	5%	1
Answered question		19
Skipped question		1

Figure 18: Table for the Difference in Economy (26%)

As figure 17 suggests, there are seven major differences that the participants currently see in the economy as compared to five years ago. If monitored correctly all seven are very closely linked and a pattern can be established. For instance 26% of participants believe unemployment rates are much higher now, which leads to their spending confidence to decrease (10%), thus resulting in less circulation of money (32%). Where there is less circulation of money, less spending negatively affects the likes of tourism and the construction industry (5%) and leads to the economy shrinking (5%). Property prices fall (11%) as a result and public debt increases (11%). However, consumers become more aware of financial products to aid both their spending power as well as to yield greater returns on investments. A good illustration of this is the range of trading ISA products that are now available from various financial institutions. Consumers feel empowered enough to choose which funds their savings are invested in, in order to maximise return rather than ploughing money into deposit accounts that offer relatively low rates of return.

Question 9 – What type of an impact has the current economic crisis had on you business/employer?

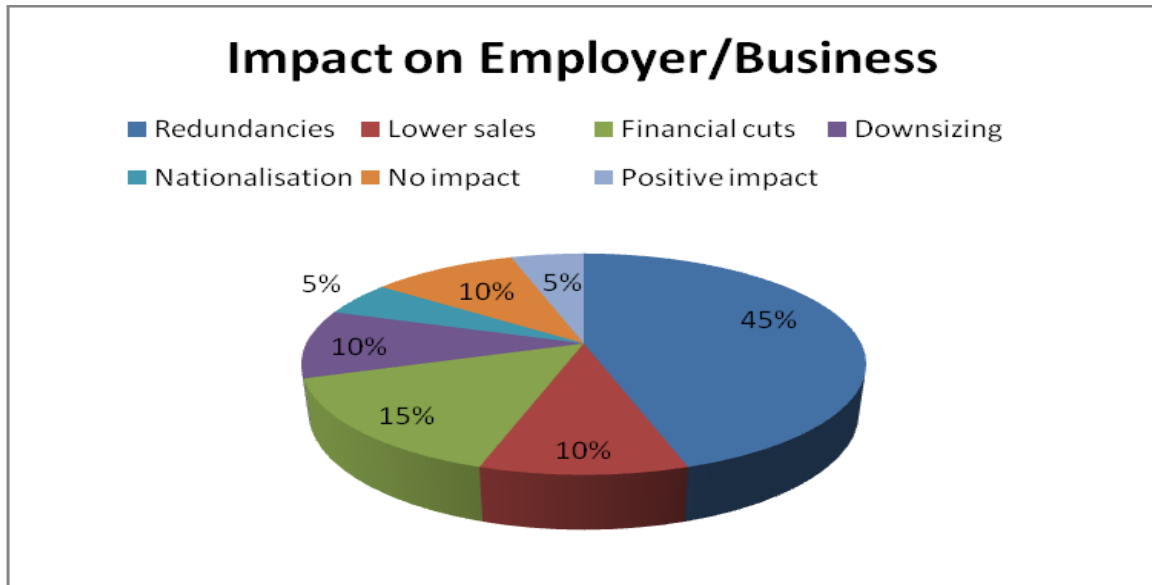


Figure 19: Chart for Impact on Employer/Business

Difference in the Economy	Response Percentage	Response Count
Answer options		
Redundancies	45%	9
Lower sales	10%	2
Financial cuts	15%	3
Downsizing	10%	2
Nationalisation	5%	1

No impact	10%	2
Positive impact	5%	1
Answered question		20
Skipped question		0

Figure 20: Table for difference in the Economy

As figure 19 shows 85% of the participants have said that their employer/business has been impacted negatively. In order to cope with the crisis, companies have had to make redundancies (45%), alongside financial cut backs (15%) and downsizing (10%). Lower sales (10%) have to downturn and a 5% have seen their employer be nationalised due to the financial crisis.

“Working in change management we have seen a huge increase in regulatory mandated projects, reduced our work force by over 800 people to date, and reduced presence both in Ireland and globally. Plus we have lost our reputation as one of the world’s most admired institutions and are seen as reckless”. – This statement was given by an employee of The Royal Bank of Scotland, which had to be nationalized as a result of the financial crisis.

10% of the participants stated that there was no impact of the recession on their employer/business and 5% claimed that their employer/company had actually experienced a positive impact. This was due to the company being cash rich, allowing them to take advantage of the recession by recruiting a more skilled workforce that had been left unemployed by other companies. They also had the added benefit of acquiring other organisations a very favourable price.

Question 10 - Do you have any knowledge of how previous recessions occurred and how they were resolved?

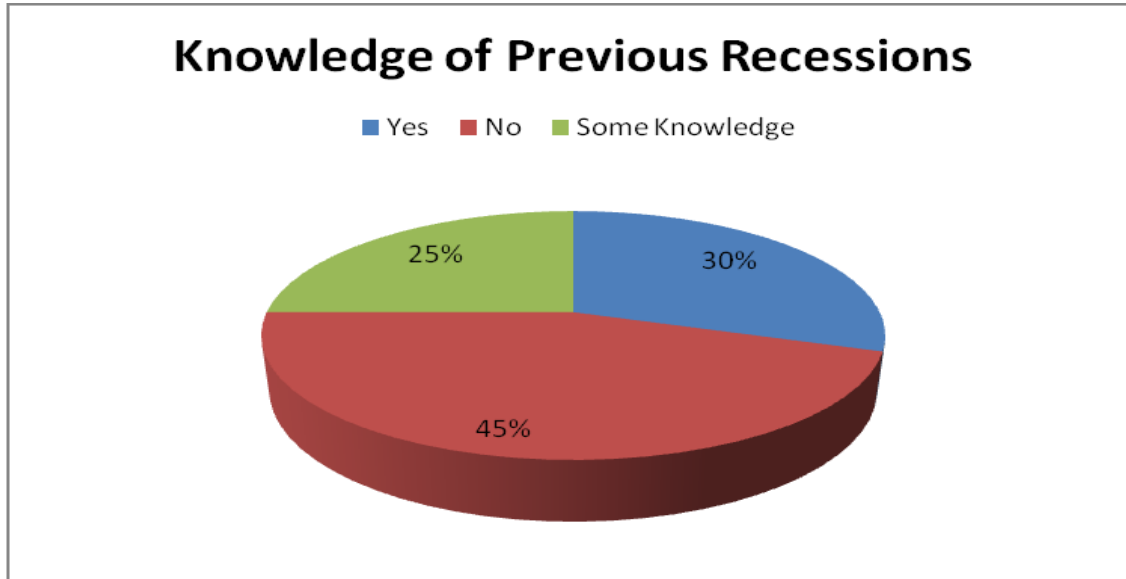


Figure 21: Chart for Knowledge of previous recessions

Knowledge of Previous Recessions		
Answer options	Response Percentage	Response Count
Yes	30%	6
No	45%	9
Some Knowledge	25%	5
Answered questions		20
Skipped question		0

Figure 22: Table for Knowledge of previous recessions

The Figures above show that 30% of the participants have knowledge as to how a previous recession had occurred, stating they usually occurred in similar ways and were resolved by a combination of factors: temporary bank guarantee and/or temporary nationalisation, combined with currency devaluation and a government economic stimulus package. However, this recession appears to be much more severe than those in the past, requiring a more diverse approach to a global crisis, especially considering how more internationally integrated the financial markets have become.

45% of the participants claim to have no knowledge whatsoever on any recession and 25% claim to have 'some knowledge'. This is particularly interesting because it shows the vulnerability of future economic problems. In order to prevent a similar crisis from occurring, we as a society have to learn from the mistakes of the past. 70% of people who are involved in the financial/business field, who do not have a complete understanding of how past recessions occurred, which shows we are more likely than not to repeat the mistakes of this crisis.

Question 11 - As you may be aware the international financial market is inter-linked.

Therefore, how big of an impact did the decisions that were made in the U.S, with regards to banking, have on our banking system?

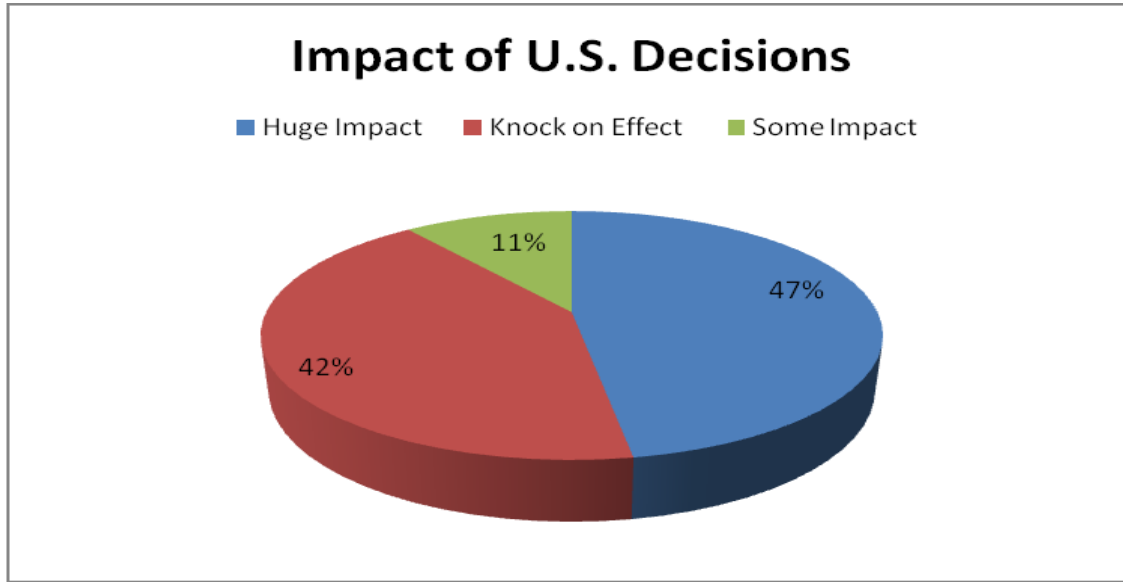


Figure 23: Chart on the Impact of U.S. Decisions

Impact of U.S. Decisions		
Answer options	Response Percentage	Response Count
Huge Impact	47%	9
Knock on Effect	42%	8
Some Impact	11%	2
Answered questions		19
Skipped question		1

Figure 24: Table for the Impact of U.S. Decisions

Figure 23 shows that 47% of the participants feel the decisions taken in the United States with regards to banking have a huge impact on our economy, as some key banks in the US played a crucial role in the economic downturn. The U.S. is a global leader in financial services, so their attempts to resolve them are respected and emulated. However, Ireland is not the United States of America. The U.S. economic fundamentals are much brighter and more resourceful than Ireland's – U.S. is younger, more diverse, has more natural resources and has military strength to secure energy needs. The relevance of a bailout in the U.S. to Ireland needs to be seen as entirely different. The decisions in the U.S. impact the Irish economy on a large scale, but the outcome is likely to be very different. It's a domino effect, U.S. is the biggest economy and any failure there impacts the whole world.

42% of the participants believe that any decisions taken in the United States have a knock on effect on our economy. The decisions made in the U.S. and the laissez faire approach to easy credit was the catalyst that helped our economy to fall in the spectacular way it did. In fact, the only economies that managed to limit their fall were those of traditionally unstable governments. Lebanon is a prime example. The central bank imposed strict controls on their banks that no mortgages without a 30% deposit could be offered, even during the worldwide economic boom. Investments in the sub-prime market were discouraged and the central banks position in hindsight was that they have always had to operate with an air of extreme caution due to the volatile nature of their economy. Perversely its economies such as these that have been the most stable through this economic crisis.

11% of the participants believe that the decisions in the United States contributed substantially to the economic state which we are in; however, if our banking system had been well managed the impact would have been minimal. Canada is a prime example of a nation that is entirely dependent on the US for trade, however, by putting in place regulations the US did not have, Canada managed to curb the effects of the global economic downturn. While decisions made in the US impacted Canada, they did not to the extent they did in Ireland.

Question 12 - Are you familiar with the Glass Steagull Act 1933, from the United States?

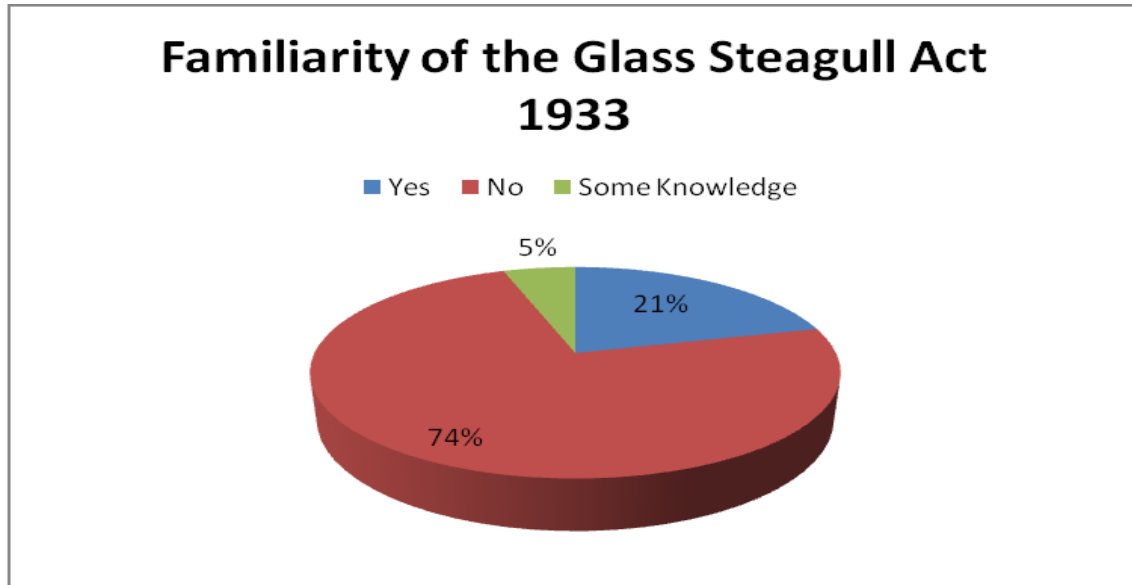


Figure 25: Chart for the Familiarity of the Glass Steagull Act 1933

Familiarity of the Glass Steagull Act 1933		
Answer options	Response Percentage	Response Count
Yes	21%	4
No	74%	14
Some Knowledge	5%	1
Answered questions		19
Skipped question		1

Figure 26: Table for the Familiarity of the Glass Steagull Act 1933

As figure 25 shows, 74% of the participants are unfamiliar with the Glass Steagull Act of 1933 of the United States; this shows the researcher that although the majority of the participants believe that decisions and regulations in the United States have a huge impact on our economy, they are unaware of exactly what regulations govern the United States banking system. 5% have some knowledge of the Act and 21% said they had knowledge of the act and how it made into law the separation and operation of Retail/Commercial Finance Houses and Investment Finance Houses; including Balance Sheet and some Accounting principles that are applied to them being separate.

Question 13 - In 1999 when the Glass Steagull Act was repealed and replaced by the Financial Modernization Act (AKA Gramm-Leach-Bliley Act), this took away the boundaries that separated private and commercial banking. In your opinion, what impact did this have (advantages/disadvantages)?

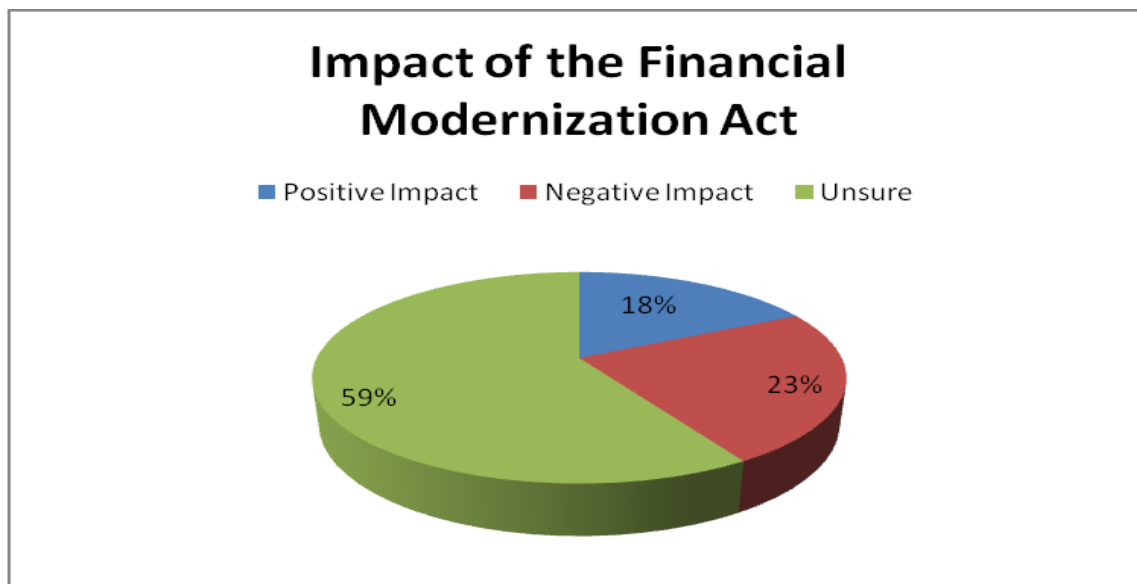


Figure 27: Chart for the Impact of the Financial Modernization Act

Impact of the Financial Modernization Act		
Answer options	Response Percentage	Response Count
Positive Impact	18%	3
Negative Impact	23%	4
Unsure	59%	10
Answered question		17
Skipped question		3

Figure 28: Table for the Impact of the Financial Modernization Act

As figure 27 shows, 59% of the participants were unsure of the impact the Financial Modernization act had, reflecting their prior knowledge base of the act.

18% said that it had a positive impact as any person involved in investment banking could indulge freely in activity that presented a mirage of increased profitability; thus generating large amounts of personal income with little attention to the longer term benefits of what they were doing. The main disadvantage was that all banks became market gamblers, all competing for higher profits to drive share prices and dividends to shareholders higher (at an increased risk).

23% claimed that the impact was a negative one. Laws often come into place to support a need or the interests of powerful counterparties. This is a good example. The net advantages for society have been limited, with higher incomes and asset bubbles being taken advantage of to build up personal and corporate wealth (known as Equity Withdrawals in many cases). There have been some higher tax

receipts, but the inability of the Irish Government / Irish Public Sector to efficiently apply these funds into infrastructure projects to sustain real growth and development has meant that the advantages have been limited. So as a result of liberating the finance markets, some people have made a lot of money, and almost everyone else has taken on an awful lot of debt.

Question 14 - In your opinion was the Financial Modernization Act one of the earlier factors that contributed to the recession?

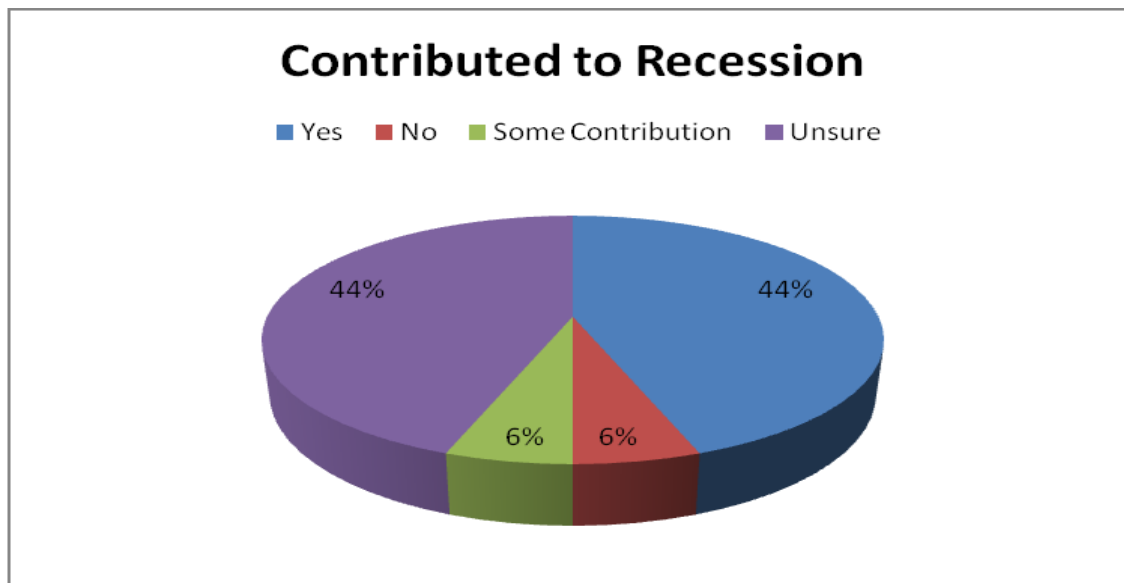


Figure 29: Chart for whether the Financial Modernization Act contributed to recession?

Contribute to Recession?

Answer options	Response Percentage	Response Count
Yes	44%	8
No	6%	1
Unsure	44%	8
Some contribution	6%	1
Answered question		18
Skipped question		2

Figure 30: Table for whether the Financial Modernization Act contributed to recession?

As figure 29 shows, 44% of the participants believe that the Financial Modernization Act was an early contributor to our current economic crisis. It has facilitated big business decisions which have contributed to over-activity and caused financial distress. The Financial Modernization Act enabled Bank chiefs to transfer debts by using legitimate accounting practices that had not adjusted quickly enough to the changes in Law – in order to grow their balance sheets and lend more money and thus oil the wheels of an Asset Bubble’s growth. Retail and investment banking should be kept separate and regulations should not have been relaxed.

44% of the participants were unsure of the contribution, 6% claimed that the Financial Modernization Act was partially to blame not solely and 6% believe that it had no contribution to the current financial crisis.

Question 15 - Is there a need to reinstate or put in place similar regulations as the Glass Steagull Act?

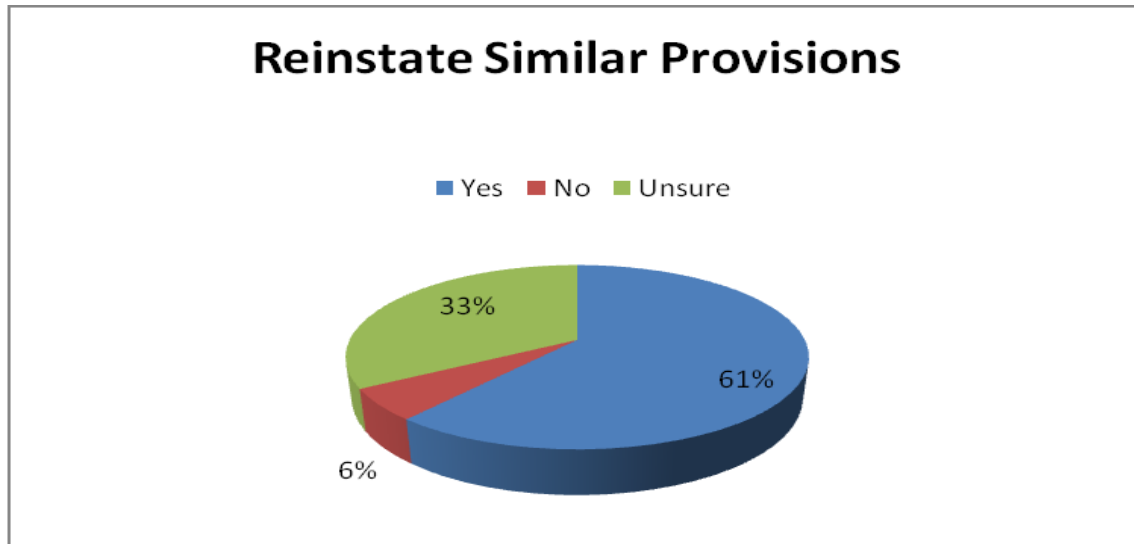


Figure 31: Chart for the need to reinstate similar Regulations as the Glass Steagull Act

Reinstate Similar Provisions		
Answer options	Response Percentage	Response Count
Yes	61%	11
No	6%	1
Unsure	33%	6
Answered question		18
Skipped question		2

Figure 32: Table for the need to reinstate similar Regulations as the Glass Steagull Act

As figure 31 indicates, 61% of the participants believe that similar provisions as the Glass Steagull Act should be reinstated, as there is most certainly a need to reinstate and expand regulations over banking behaviour. Strict regulation must be reinstated, the free market should resolve their own problems, but not regulate themselves, therefore, it is necessary to have better regulation and more market forces. If there really was a true 'market' set up, then the irresponsible companies and banks would fall by the wayside and the best companies/banks would be allowed to prosper and expand.

6% of the participants believe there is no need for similar regulations as any government action should not restrict market growth, but should ensure due diligence is taken by financial organisations. 33% of the participants were unsure whether or not similar regulations should be put in place.

Question 16 - In your opinion, has the government has learned anything from this recession?

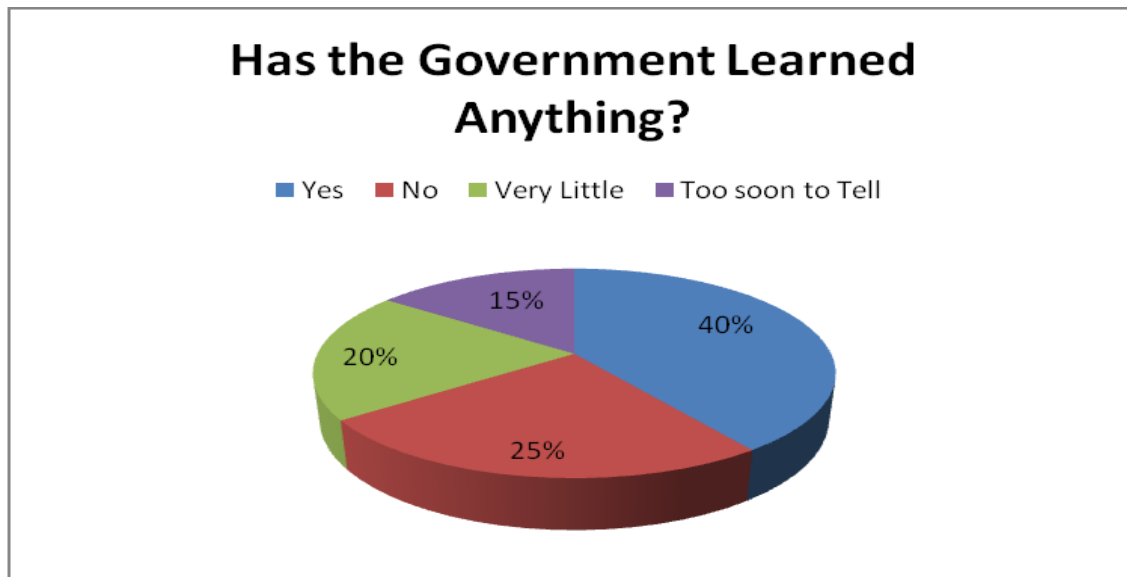


Figure 33: Chart for Has the Government Learned anything from this Recession

Has the Government Learned Anything		
Answer options	Response Percentage	Response Count
Yes	40%	8
No	25%	5
Very Little	20%	4
Too soon to Tell	15%	3
Answered question		20
Skipped question		0

Figure 34: Table for Has the Government Learned anything from this Recession

Figure 33 shows that 40% of the participants believe that the government has learned a lot from this current crisis; such as: “not leaving the market unregulated,” “tightening lending criteria,” “taking risk assessments more seriously” and “not trusting banks to operate without being reckless.” 25% of the participants believe that the government has not learned anything. One response stated: “your debt, my debt, company debts and the bank’s debt all sit on sovereign government balance sheets.” Another responded by saying “the government is simply just trying to re-inflate the bubble economy.” 20% feel the government has learn very little from the crisis, and predict that the worse is yet to come, and 15% believe that it is too soon to say whether or not anything has been learnt by the government, as “we are currently in the smack bang middle of the financial crisis at present.” They believe what the government learns will only be seen after we have recovered to a certain degree.

Question 17- Do you think appropriate measures have been taken to prevent a future economic crisis by the government?

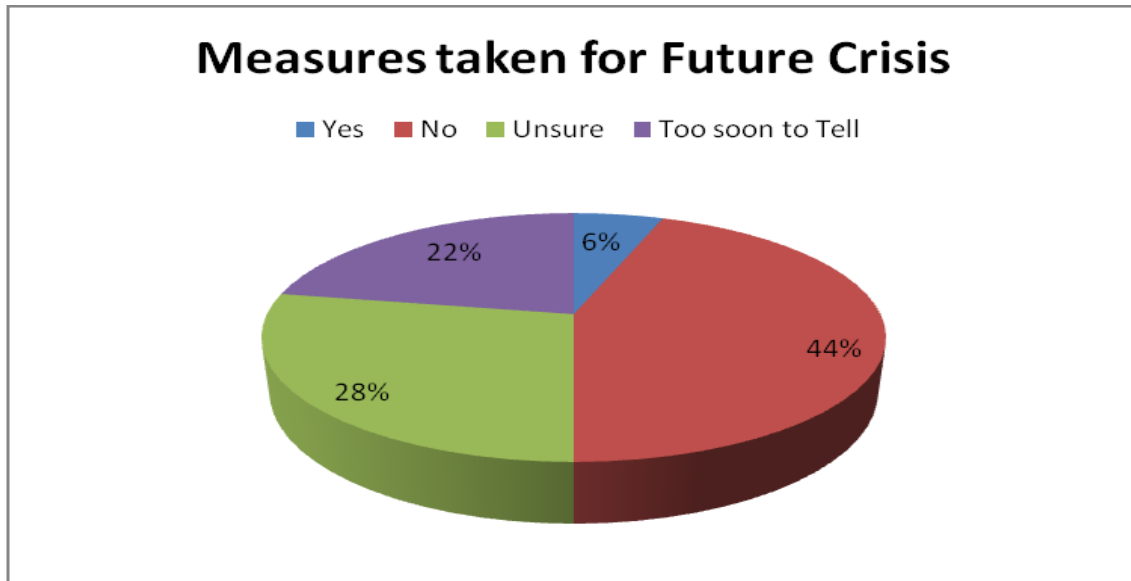


Figure 35: Chart for whether appropriate measures have been taken to prevent a future economic crisis by the government

Measures taken to Prevent a Future Crisis		
Answer options	Response Percentage	Response Count
Yes	6%	1
No	44%	8

Unsure	28%	5
Too soon to Tell	22%	4
Answered question		18
Skipped question		2

Figure 36: Table for whether appropriate measures have been taken to prevent a future economic crisis by the government

The above figures show that 44% of the participants believe that the government has not taken any appropriate measures to prevent a future economic crisis; “there is a need for more regulation and more imaginative tax policies.” Also, current economic policy which seems obsessed with interest rates and money supply ignores investment and pay/price controls, which will never be adequate for managing complex economies. Although it is believed that no measures have been taken by the government to prevent a future recession, there are however, future proposals in the pipeline, such as stricter E.U. regulations. 28% of the participants are unsure whether or not measures have been taken to prevent a future crisis, while 6% believe that the government has taken sufficient measures. 22% believe that it is too soon to tell, that only after we have survived this recession will it be clear what precautions to take in the future.

Question 18 - If you could have changed/contributed to any aspect of the economic crisis in an attempt to prevent or resolve it, what would you have done differently?

As this question was completely open ended, there were a variety of different answers from the participants, most following a similar pattern regarding what they would have done differently. Below is a sampling of some of the participant's feedback.

- Much stricter banking regulation.
- Allow rogue banks such as Anglo Irish to fail. They provide very little benefit to the greater Irish population. It might go a small way to getting senior bank officials to be a little more responsible.
- The creation of a nationalised retail bank. This could set a standard of good practice that other banks would need to adhere to in order to compete.
- A more progressive tax regime that would penalise financial institutions for indulging in unfavourable activities that generate short term profits
- Increased education amongst consumers and limited credit. Most people no longer know how compound interest works, how mortgages work, how credit works. Consequently a lot of people were unnecessarily saddled with large debts that they could not manage.
- Retained and strictly enforced the rule whereby one could borrow “up to” 90% of purchase price of a property or 2.5 times annual income – whichever is lowest. (If bankers cannot exceed that amount, land and property cannot rise in price above the ratio to average incomes.
- Tax breaks should not be allowed for property development, but should be provided for the manufacturing industry.
- Avoid mortgage based securities and giving too much power to agency and financial institutions.
- Emphasise manufacturing and self-sustainability with a less Eurocentric governmental and corporate view of the world and investment. This starts at an educational level and should permeate through society to the very lowest rungs.

- Remove the massive burden of welfare payments to those who are economically inactive and would have pushed for a much larger economic and political union within Europe, as Ireland on its own just cannot compete on economic, political or military terms with the emerging economies.

Discussion

The aim of this study is to provide in detail and explore the current financial meltdown our economy is faced with. In this section, with the help of the data collected and the analysis of the findings, the research questions were answered. The main objectives of this study were as follows:

- Awareness amongst the public with regards to the current financial crisis,
 - how it happened?
 - who is to blame?
- Would a re-instatement of the Glass-Steagall Act, or similar strict reforms prevent a future economic crisis?
- Are government interventions necessary with regards to banks? I.e. bail outs?

Awareness about the financial crisis

According to the results of the data collected from the primary data collection, it was seen that the majority of the population is aware that our economy is currently in recession. When asked ‘is our economy still in recession’, 95% of the participants answered that it was. Although there

was the 5% who stated that they felt the financial crisis was over as they believe that unemployment rates were not high, this can be seen as a possible misunderstanding of the events, as the Central Statistic Office released figures which confirmed otherwise. Irish full-time employment fell by 193,200 on an annual basis in 2009 with declines in both male (-152,500) and female (-40,800) and the unemployment rate rose to 13.1% in 2010.

In order to gain an insight on the level of awareness, the participants were asked ‘who or what was responsible for the financial crisis?’ The majority of participants (45%) blamed the government for the crisis. They believed that the government is appointed for a reason and that reason is to overlook all aspects of the economy and monitor their activities accordingly.

However, 58% of the participants felt that this was not done as they believed the government was unwilling to make and implement key policies which could have helped to prevent the recession if done so at the right time. The next most common entity that got the blame for the recession were the banks (35%), with their bad banking practices and were accused of ignoring the accepted rules of banking. Global factors were also blamed by 5%; these included key policy decisions in the United States with regards to banking and regulations which caused our economy to crumble.

The findings showed that 45% of the population didn’t not have any knowledge about how previous recessions occurred or even how they were resolved, showing the vulnerability of future economic problems. In order to prevent a similar crisis from occurring, we as a society have to learn from the mistakes of the past.

In order to get an insight of the depth of awareness amongst the public with regards to how the recession happened, the research asked the participants questions on acts of the United States,

namely the Glass Steagall Act and the Financial Modernization Act. It also asked the participants whether they feel the Financial Modernization Act was an early contributor to the recession. The analyses of the findings on these questions were particularly interesting as 74% of the participants said they were unfamiliar with the acts stated above. However, when asked if decision taken in the United States have a direct impact on this, 47% of the participants answer that the decisions did have a huge impact on our economy with 42% saying it has a knock on effect due to the fact that the United States is a global leader in financial services so any decisions or failures in their economy will directly affect the Irish economy. This shows the researcher that although the majority of the participants believe that decisions and regulations in the United States have a huge impact on our economy, they are unaware of exactly what regulations govern the United States banking system. 59% of the participants were unsure of the impact of the Financial Modernization Act; however, 44% believe that the act was an early contributor as it facilitated big business decisions which have contributed to over-activity and caused financial distress.

The above data and information leads the researcher to believe that generally people are very aware of the recession and its impacts, but the majority lack in detail as to how the recession actually occurred. As mentioned earlier this questionnaire was only distributed to individuals who are involved in the financial and business fields, and 70% of those seem to have very little knowledge about previous recessions. The above figures also suggesting that the majority of people are not aware of the roots of this current recession which leads the researcher to believe that we are likely to repeat the recession again in the future.

The Governments Role

- Would a re-instatement of the Glass-Steagall Act, or similar strict reforms prevent a future economic crisis?
- Are government interventions necessary with regards to banks? Or should this be left to the free market?

From the findings more than 60% of the participants believed that similar regulations as the Glass Steagull Act should be reinstated. The findings show that presently there is a lack of government control over banks, they are and were not being monitored closely enough allowing scope to fail. It is the duty of the government to reinstate and expand regulations over banking behaviour in order to control the current crisis and prevention of a future crisis. 60% of the participants believe that the free market cannot correct its own mistakes, that the government has a vital role to play in the prevention and resolution of issues in the financial market, even to the extent where banks have to be nationalized, as that is why they are put in power to aid the economy so that it does not collapse. There were 25% of the participants who believed that government intervention should only go as far as regulating; whilst the government should impose heavy regulations, any drastic involvement could essentially damage the free market. Monitoring of banks need to be key priority, as if done properly, prediction of failure and attempts to resolve those can save an economy from a financial crisis, or at the least curb it. The research from the questionnaire findings can affirm that there is a crucial need for government to impose stricter regulations and to intervene in the financial market in so far as nationalization of banks.

Summary

The above chapter elaborates on the questions which the researcher used in her questionnaire. Each question has been explained by use of the data which was collected from the survey. The findings have been presented in forms of pie charts and tables with the assistance of spread sheet, for a clear and better understanding of the findings. And in the final section the research questions have been answered along with their limitations.

Chapter 5

Conclusion

This dissertation described the current situation of the financial market, showing in great detail the regulations and early contributing factors in the U.S. economy which lead to the initial free fall of the global financial market and the bursting of the dot com bubble which saw billions of dollars being wiped out from technology companies. The NASDAQ, a stock market index used to follow the performance of stocks of technology and growth companies, peaked at an all time high of 5,048.62 in 2000. The slowing of the economy and the subsequent downturn in the financial market due to deregulations of financial institutions meant that the U.S. economy was headed for recession. This combined with series of event such as the 9/11 terrorist attacks, the cut in interest rates by the Federal Reserve and the introduction of the Financial Modernization Act 1999. Reforms were also seen in European markets with the UK government removing regulatory responsibility from the Bank of England and setting up a separate regulatory body, the Financial Services Authority, FSA to oversee the banking and the financial markets. Over the following years, in a time of low interest rates and cheap debt, financial institutions created ever more complex and innovative products, allowing the packaging of low grade securities into products with better ratings. Collateralized debt obligations, Mortgage Backed Securities and other related Structured Investment Vehicles allowed banks and brokers to lend to a sub-prime market, bundle the loans into profitable SIV products with artificially lower risk, and then sell the SIV onto other banks, investors and institutions. As borrowers began to default on repayments, the US housing boom showed signs of slowing. Reducing the price of real-estate, banks had to write off large losses which also resulted in them becoming more reluctant to lend, especially to a sub-prime market, further slowing the demand for housing which in turn reducing house prices even further.

Many large institutions such as investment banks had invested large sums of capital in these SIV's which then became known as toxic assets, which had to be written off. With banks being unaware of other institutions exposure to these toxic assets they became reluctant to lend to one another and overnight the

interbank lending rate spiralled. This affected the large banks in Europe, such as HSBC, RBS, Lehman Brothers, Goldman Sachs all of which operated globally, therefore creating global crisis. As a result of this governments have to intervene in order to protect the banking system in their respective countries. Some were even allowed to collapse such as the Lehman Brother as the U.S. government did not see fit to try and rescue an institution which had already drown, it would have just been a waste of the tax payer's money. Banks collapses were extremely rare since the introduction of the Glass Steagull Act of 1933 so why was it, that once the boundaries were removed of this Act the economy started to slide; this is essentially what was discussed in this dissertation. How the removal and deregulation of the financial market in one country put the economies of the respected country's in a state of crisis.

The aim of the study was to affirm whether government intervention is necessary in the financial market, and whether similar regulations to the Glass Steagull Act should be reinstated. The finding of this study shows that the public feel there is a crucial need for government to intervene where the market struggles. The findings show that 60% of the participants believe that similar regulations should be reinstated in a bid for extensive control over the banks. 60% of the participants believe that the free market cannot correct its own mistakes and that the government has a vital role to play in the prevention and resolution of issues. Even to the extent where banks have to be nationalized. However, preventions of such a crisis need to be seen at a very early stage, hence why is it vital government imposing strict monitoring of banks and their activities. Firstly to tackle bad banking practices and secondly by not putting tax payer money at risk by nationalising banks. Another aspect which this dissertation explored was the general awareness of the recession amongst the public, with regards to how it happened and who is to blame. The findings on this were interesting as 95% of people believed we are still in recession due to high unemployment rates and low GDP, however, where the participant believed the economy was still in recession and who was to blame, they had little knowledge as to how we actually got into the crisis state

that we are in, this can the researcher to believe that little knowledge of ‘how’ and ‘when’ can be a gateway to a future financial crisis lurking.

Limitations of research and Future Directions

Limitations of this questionnaire include: knowledge base of the participants, whether the participant is up to date with current economic issues, understanding of the questions, sample size and bias – depending on their specific involvement in the field and their employer. the majority of which were involved in the financial market, ideally for a future direction the researcher could attempt to brief government officials on the matters concerned so that opinions of both the people involved in the financial market and that of the government officials can be compared in order to better understand the crisis and in an attempt to seek a resolution. The knowledge base and depth of awareness of current issues are important factors as they can contribute to the participant’s understanding of the issues and allows them to make more informed decisions. It also helps in contributing to whether a person fully understands regulations that might be put in place in times of a crisis. The bias of the participant can have an important impact on the results of the questionnaire, as specific involvement in certain areas of the field or being employed by a certain organisation (an organisation that had massive layoffs versus one that did not) can skew their answers based on emotion rather than educational observation. The sample size of this questionnaire also limits the results as only interviewing 20 people may not reflect the true nature or level of understanding of the field. The position of the participant may also have an effect. For example a front line employee versus middle management position versus upper level position. Based on their position, a participant may have a more in depth involvement in the company and be more privy to information, which can lead to a better understanding of what is actually happening, as opposed to hearsay. Although with the use of secondary and primary data the

research has affirmed that government intervention is necessary along with stricter regulations on banks, however since there has been no previous studies on the topic to which the research can related to and compare analysis, the recession is a very new topic, and due to the fact that, our economy is still in recession the true results and outcomes will not be known for a very long time after the submission of this dissertation. Thus the researcher is aware that even though the research objectives have been met and affirmed, there is no real right or wrong answer as the outcome of the crisis is yet to be witnessed.

Chapter 6

Self Reflection

Introduction

This chapter aims to evaluate the learning process of the researcher throughout the duration of the MBA course, it discusses the aspects of learning and reflects on the elements which were weak of the researcher, but later through the learning process of the MBA were improved. This chapter consists of theoretical backgrounds of learning and self reflect, followed by a self assessment of the researchers learning style.

Learning Styles

As all individuals are unique, the way in which they perceive the same experiences is completely different to one another; therefore it is vital to explore different learning styles. As stated by John Dewey (1938) “There is a need of forming a theory of experience in order that education may be intelligently conducted upon the basis of experience”. Mumford (1999) believes that most people learn by doing things and then thinking about how we have done them. However Bourner, (2003) argues that simply reviewing past experiences does not constitute reflective learning, but one has to learn from the past experiences. There are two kinds of learning instruments, learning style and learning strategy. Learning styles have physiological basis and are fairly fixed for the individual, whilst learning strategies are ways that are developed to adapt and deal with different learning tasks. (Riding and Rayner 1998)

There is a wide range of literature available that investigates and explores the applicability and classification of learning styles, such as “Learning Style Inventory” (Kolb, 1985) and the “Learning Style Questionnaire” (Honey and Mumford, 1986). An adults learning process is different than compared to a child, a child is seen to be an empty vessel seeking to get filled with knowledge, however an adult already has knowledge, values, relationships, and intentions that influence how they behave and learn new things, and these are the factors which David Kolb recognized in his development of the Experiential

Learning Cycle. Experiential Learning Theory defines learning as “the process whereby knowledge is created through the transformation of experience. Knowledge results from the combination of grasping and transforming experience.” (Kolb 1984:41)

Kolb’s learning theory sets out four distinct learning styles which are based on a four-stage learning cycle, two dialectically related modes of grasping experience; Concrete Experience and Abstract Conceptualisation and two dialectically related modes of transforming experience; Reflective Observation and Active Experimentation.

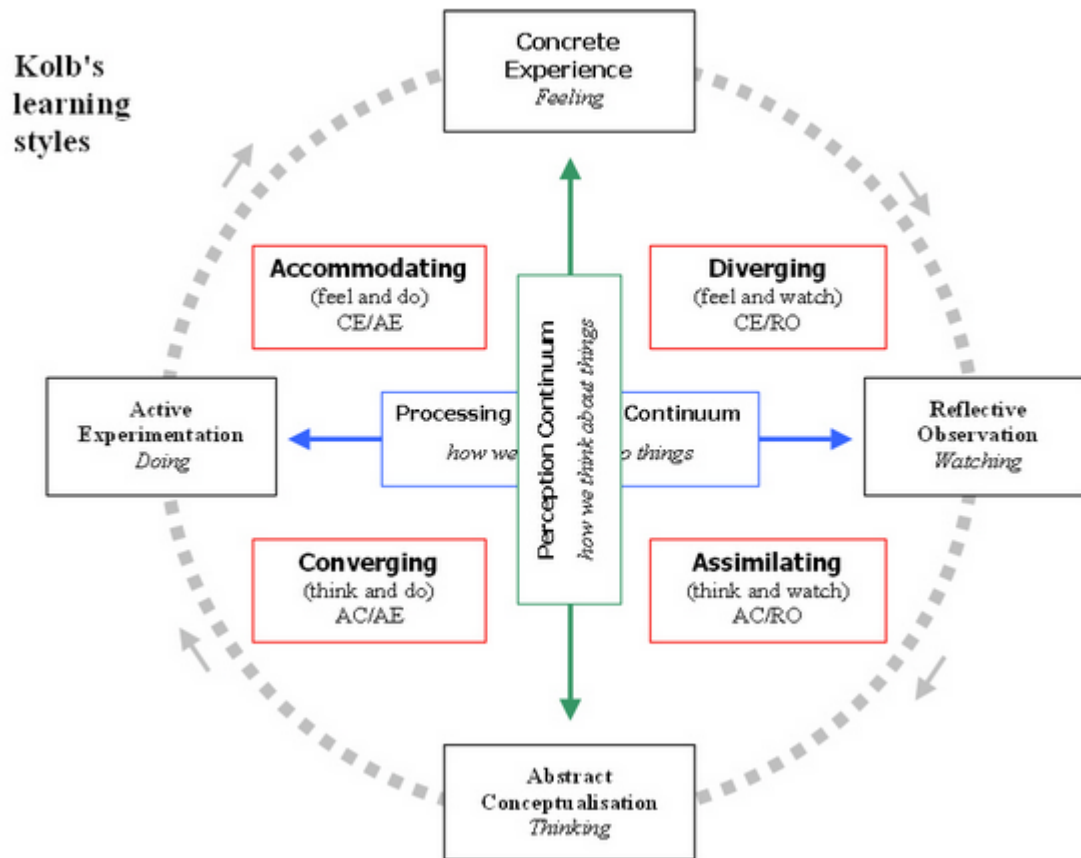


Figure 36: Kolb's Learning Cycle (Kolb, 1984:42)

This cycle is portrayed as an idealised learning cycle where the learner touches all the bases, experiencing, reflecting, thinking and acting in a development process that is responsive to the learning situation and what is being learned. It is common for people to draw on more than one style, indicating flexibility and understanding one's learning style can be helpful in improving learning speed, depth, retention and enjoyment (Lowy & Hood 2004). Kolb's model works on two levels, the first being a Four Stage Cycle, and a Four-Type Definition of Learning Styles namely, The Convergent, The Divergent, Assimilation and The Accommodative.

People with a Convergent learning style can solve problems and will use their learning to find a solution to practical issues. They are more attracted to technical tasks and problems than social or interpersonal issues, they like to experiment with new ideas, to stimulate and to work with practical applications.

In the Divergent learning style, people prefer to watch rather than do, gather information and use imagination to solve problems. They have the ability to view concrete situations from several different viewpoints, as they perform better in situations that require idea generation; they also have broad cultural interests and tend to be quite emotional.

The Assimilating learning style is for a concise and a logical approach, where ideas and concepts are more important than people. These people require a clear explanation; they do extremely well at understanding a wide range of information and rationally evaluating it to a clear logical format. They tend to learn best in research situations where there is an emphasis on theory and systematic analysis.

The Accommodating learning style relies on intuition rather than logic, people use other people's analysis, and prefer to take a practical, experiential approach. They tend to be attracted to new challenges and experiences; they rely on other people information but tend to do their own analysis.

Different situations can provoke different learning styles for different individuals, Honey and Mumford (1986) identified a framework of four basic learning styles, and these were initially derived from Kolb's theories but improved by the authors. "Our description of the stages in the learning cycle originated from the work of David Kolb. Kolb uses different words to describe the stages of the learning cycle and the four styles..." (Honey and Mumford 1992), the framework consisted of;

1. Activists, these were opened minded individuals who are enthusiastic about anything new, they tend to act first and later consider the consequences, they seek challenges and prefer experimentation but are bored with implementation and longer term consolidation.
2. Reflectors, tend to ponder on experiences and observe them from various different perspectives, they gather data, analyse it but delay a conclusion for as long as possible, they also tend to listen before they speak.
3. Theorists, try to adapt and integrate experiences and observations into logical, complex theories. They are logical thinkers as well as being rationally objective and avoid bias.
4. Pragmatists, enjoy new ideas, theories and techniques to see if they work in practice, they are quick at decision making, but get bored easily with long discussions.

Another model; Soloman- Felder Learning styles and Learning Strategies, which was developed by Richard Felder and Barbara Soloman in North Carolina State University, to understand the self learning styles and strategies, and more recently to become a more preferred model for describing learning styles. The model classifies learning styles into four main categories; 1.Active and Reflective Learners, 2.Sensing and Intuitive Learners, 3.Visual and Verbal Learners, 4.Sequential and Global Learners.

Based on the theories and strategies discussed above, the researcher has touched base on 'concrete experience', 'reflective observation', 'abstract conceptualization' and 'active experimentation' in the full course of the MBA programme, at the study stage and the dissertation stage. During the course of the MBA the researcher took a learning style quiz, which confirms the type of learner you are (see appendix

2) The results showed that I am a Visual and Verbal Learner that I remember best what I see through pictures, diagrams, flow charts, time lines, films and demonstrations. As well as being a Verbal learner I get more out of words -written and spoken explanations. As stated by Felder and Soloman, 2008, everyone learns more when information is presented both visually and verbally. From this the researcher found her learning style came under the category of the Reflector learning style which is characterized by the researchers strive for new ideas, theories and techniques. Reflectors tend to ponder experiences and observe them from a number of different perspectives, they collect data from both first hand and from others, and tend analyse if thoroughly before coming to a conclusion. They tend to enjoy observing people and listen to them in order to obtain the drift of the discussion before giving their own contribution towards it.

Academic Background

The researcher is of Indian origin, but has spent most of her life in Ireland. Due to her father's line of work the researcher changed schools both primary and secondary a number of time, this was a challenge as trying to adapt to different environments at an early age was difficult, along with balancing the cultures of her origin and the country which she was residing in, Ireland, proved to be quite stressful as the two countries are beyond comparable. However, the researcher was award for best attendance and student of the year award which showed her organizational skills.

The researcher went on to obtain a Higher National Diploma in Business Studies, where she was exposed to various different sampling skills, team work, literature review, questionnaire designing and documenting work with software applications. The researcher then went on to obtain an Honours Bachelors degree in Law, where she was exposed to a very strict professional environment of studying for detail in an attempt to analysis and come up with resolutions for the problems at hand.

Professional Background

The researcher has been working as a sales assistant at a very respect retail store since 2007. Her responsibilities include, assisting each customer in making purchases to suit their taste and need, alongside working in a team to achieve and maximise daily and weekly financial targets. Other duties include replenish stock, along with the unpacking, storing and count of stock, and non selling duties such as housekeeping. Products knowledge is key and the ability of the researcher to able to sell the strength of the products to the consumers to promote sales, goods and service to an identified target market.

The skills which have developed during the duration of this employment include interpersonal skills, which were strongly developed due to the high customer orientated nature of the job, where communicating with people from various different backgrounds with just one thing is common, the product you wish to sell and consumers interest to purchase; other skills such as team building and team working, organisational skills and most important time management. This was crucial when meeting sales targets on a weekly and monthly basis in a demanding business where the consumer taste is every changing.

Skills developed

The researcher has developed a series of different skills, which are vital to assist her on her career path which she has chosen through the process of the MBA course, where she gained knowledge for application to the real work environment. Through the course of the MBA, the researcher was introduced to modules such Human Resource Management, International Business and Trade, Strategic Management and Research Skills, these modules helped her further develop, problem solving skills, communication skills and personal leadership skills which she gained from numerous different tasks given, to be completed by a team effort. The researchers previous skills combined with the extended development of her skills through the MBA programme can be useful in the researcher's personal and professional life.

With regards to the dissertation the researcher has obtained vital skills such as questionnaire design and the skill to research and investigate. It has allowed the researcher to be judgemental against applying a broad knowledge and experience when addressing complex issues. The researcher learned to sort information and data and acquired analytical skills which were applied when performing the data collect and analysis in the dissertation.

Future Application

The aims and objectives of the MBA programme were designed to contribute to develop individuals into managers who are internationally competent. And the researcher believes from the skills and knowledge she has acquired during the MBA, she is satisfied that she is now geared to be an internationally competent manager. The MBA has added value to the researcher knowledge and learning. The researcher intends to further her theoretical knowledge base through journals and articles wherein she can be constantly aware about the business and technological changes in the global economy. The MBA has altered my perspective of learning and researching the aspects of the problems in the real business world through the development of analytical, critical, decision making and personal management skills.

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APPENDICES

APPENDIX 1

Questions:

1) Are you Male/ Female?

2) Which age group do you belong to?

21- 30

31-40

41-50

51-60

3) What is your average Annual Income?

€11,000 - €20,000

€21,000 - €30,000

€31,000 - €40,000

€41,000 - €50,000

above €50,000

4). From your perspective, do you think our economy is still in recession?

- If yes, why?

- If not, why?

5). In your opinion who or what is most responsible for our current economic crisis?

6). Do you feel the government has a role to play in preventing/resolving financial market issues (nationalization of banks/bail outs) or should it be left to the free market?

7). Do you feel the government took appropriate measures in an attempt to prevent an economic crisis?

- Was this done at the right time?

8). What is the biggest difference now in our economy, compared with that of 5 years ago?

9). What impact has the current economic crisis had on your business/employer?

10). Do you have any knowledge of how previous recessions occurred and how they were resolved?

11). As you may be aware the international financial market are inter-linked. Therefore, how big of an impact did the decisions that were made in the US, with regards to banking, have on our banking system?

12). Are you familiar with the Glass Steagall Act 1933, from the United States?

13). In 1999 when the Glass Steagall Act was repealed and replaced by the Financial Modernization Act (AKA Gramm-Leach-Bliley Act). This took away the boundaries that separated private and commercial banking; in your opinion, what impact did this have (advantages/disadvantages)?

14). In your opinion, was the Financial Modernization Act one of the earlier factors that contributed to the recession?

15). Is there a need to reinstate or put in place similar regulations as the Glass Steagall Act?

16). In your opinion, what do you think the government has learned from this recession?

17). Do you think appropriate measures have been taken to prevent a future economic crisis by the government?

18). If you could have changed/contributed to any aspect of the economic crisis in an attempt to prevent or resolve it, what would you have done differently?

APPENDIX 2**(Learning Style)**

The Results Are In! You can use these results to help you identify the best ways for you to study effectively. Be sure to find more ways to evaluate your own personality and learning style.

It will pay off!

You are a visual and auditory learner.

You can benefit by using a combination of sight and sound when studying. You might use the phrase "I hear what you're saying" often. You can pick up information most easily by listening and reading. You may like to see class demonstrations, diagrams and other visual aids, and you benefit from watching video presentations. You can benefit by taking notes and reading them out loud. You would do well in a study group. You can memorize things by turning them into rhymes. You probably enjoy speaking in class.

