

## FINANCIAL CRISIS OF OBSERVATION THROUGH THE SUBSTANTIAL IMPACT OF FLUCTUATION OF PROPERTY PRICES AND FALLS THAT MAY OCCUR IN RELATION TO CREDIT FORMATION

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**Abstract:** The sharp movements in property and credit markets during financial crises are quite different from the norm. Asset prices and credit booms and busts differ from the movements seen during a normal business cycle. Booms in the credit and property markets are shorter, stronger and faster than other booms. For example, these episodes often occur over relatively shorter time periods than other episodes and are associated with much faster increases in financial variables. The slope of a typical boom is two to three times that of regular episodes. And the jerks and lunges are longer, deeper and more violent than other falls. Credit crises and asset price crashes have a much larger fallout than other downturns.

**Keywords:** *crisis, business, legal entities, state action.*

### 1. INTRODUCTION

Financial crises sometimes appear to be driven by "irrational" factors. These include sudden attacks on banks, contagion and spillovers in financial markets, arbitrage restrictions in times of stress, the occurrence of asset crashes, credit crises and sell-offs, and other aspects related to financial turmoil as it manifests itself in the operation of the economy [1-9].

Indeed, the idea of the source of movement in the financial market has long occupied a significant space in the literature trying to explain crises because only in this way can a financial crisis be equated with the economy of an economy [10-16].

Investor behavior can also push asset prices away from fundamentals, at least temporarily. Frictions in financial markets (especially those related to asymmetry of information) and institutional factors can affect asset prices, especially in the economy [17-25].

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The theory suggests, for example, that differences in information and opinions among investors (related to disagreements about the valuation of assets), short selling restrictions and other restrictions on arbitrage are possible reasons for the deviation of asset prices from the fundamentals in the functioning of economic activities [26-30 ].

Mechanisms, such as herding among financial market participants, information cascades and market sentiment can affect asset prices that should be monitored in relation to the real economy [31-35].

## **2. MECHANISMS OF ACTION ON THE ECONOMY AND THE FINANCIAL CRISIS**

Mechanisms, such as maintaining the framework of functioning among participants in the financial market, information cascades and market mood can affect asset prices, which should be monitored in relation to the real economy, which is of particular importance for transition economies.

Virtual feedback loops:

- rising property prices,
- increase in net worth,
- allowing financial intermediaries to connect and buy multiple of the same asset
- the framework in which the evolution of the bubble occurs.

The phenomenon of contagion - spill over beyond what the "basics" suggest - may have similar roots. Brunner Meier reviews these models and shows how they can help understand bubbles, crashes, and other market inefficiencies and frictions. Empirical work confirms some of these channels, but formal econometric tests are often not powerful enough to separate bubbles from rational price increases, let alone discover the causes of bubbles.

Bubbles can be the result of the same factors that are claimed to lead to asset price anomalies. Many "deviations" of asset prices from efficient markets model predictions have been documented, on a small scale without systemic implications.

While some of these deviations have diminished over time, possibly as investors have implemented strategies to exploit them, others, although extensively documented, persist to this day. Moreover, the deviations were found in similar ways in different markets, time periods and institutional contexts. As such, the anomalies cannot be easily attributed to specific distortions related to institutions. Rather, they appear to reflect factors inherent in

financial markets. Studies under the rubric of "behavioural finance" have attempted to explain these patterns, with some success.

### **3. GENERAL FACTORS OF INFLUENCE ON FINANCIAL CRISES AND ECONOMY OPERATIONS IN TRANSITION ECONOMIES**

Of course, "evidence of the irrational" may reflect a misspecified model, i.e. irrational behaviour is not easy to fake. Post-bubble busts can be caused by small bumps. Asset prices may experience a small decline, either due to changes in fundamentals or sentiment. Changes in international financial and economic conditions, for example, can cause prices to fall. By now, the channels through which such a small decline in asset prices can trigger a crisis are well understood.

Given information asymmetry, for example, a small shock can cause the market to freeze. Negative feedback loops can then occur, where asset prices show rapid declines and downward spirals. Notably, falling prices can trigger a sell-off, as financial institutions experiencing declining asset values struggle to attract short-term financing. Such "sudden stops" can lead to a cascade of forced sales and liquidations of assets and further price declines, with consequences for the real economy.

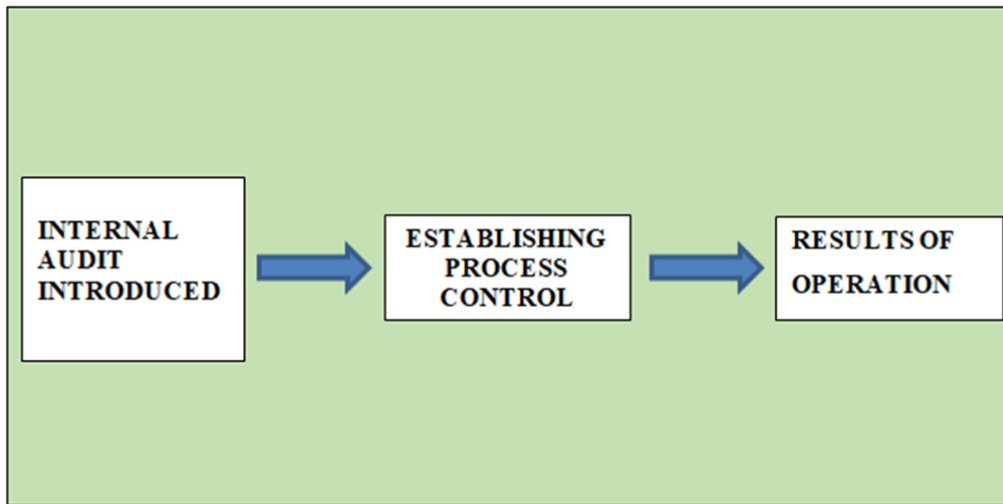
The flight to quality can further intensify the financial turmoil. The relationships between financial intermediaries are multiple and complex. Information asymmetries prevail among intermediaries and in financial markets.

These problems can easily lead to financial turmoil. They may be exacerbated by investors' preference to hold receivables. In particular, debt claims are "low information intensive" in normal world states - since the risk of default is low, they require little analysis of the underlying value of the assets.

They become "information intensive", however, in times of financial turmoil as risks increase, requiring investors to assess default risks, a complex task involving a host of information problems.

This puts a premium on security and can create perverse spirals. As investors flee to quality assets, for example, government bonds, they shun some types of lower-quality claims, causing their prices to fall more sharply.

An overview of possible general control is given in Figure 1.



*Fig. 1. Digital intermediation and internal control and audit in the economy*

#### **4. CONCLUSION**

Financial crises arise on the basis of general and not classical so-called driven by "irrational" factors. These include sudden attacks on banks, contagion and spillovers in financial markets, arbitrage restrictions in times of stress, the occurrence of asset crashes, credit crunches and sell-offs, and other aspects related to financial turmoil as manifested in the operation of the economy as highlighted by the author. this study. In addition, the idea of the source of movement in the financial market has long occupied a significant space in the literature trying to explain crises, because only in this way can the financial crisis be equated with the economy of one economy, which was adopted in this study and improved in such a way that the importance of control in economy and economic development. This is the second important contribution of the authors of this study (Figure 1).

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