SVKM's
Narsee Monjee College of Commerce & Economic
Golden Jubilee Year

EcoBuzz

Syriza : What it is & Why it matters

January 25th 2015 saw Greece having a new prime minister and Europe its first anti-austerity government. Syriza is a radical-left party which is led by Alexis Tsipras. It won 36% of the votes and shall now form the next government in an economically failing Greece . However, the reason behind Syriza and Alexis Tsipras trending on facebook and other social networks is not because it won majority in the snap general elections but rather due to its "anti austerity" ideals and beliefs. Let us think what Syzira's win could mean for the rest of the Eurozone.

At present Greece has a massive debt burden running at more than 175% of its GDP. It has been lent an astonishing amount of money in not just one but two bailouts, amounting to $275 billion.

Alexis Tsipras, the party's leader, offered a message of hope through his (often cited as unreasonable) ideals of reducing austerity and taxes in a country still in financial despair. In his victory speech in Athens, Mr. Tsipras told supporters that the troika (The ECB, The IMF & The European Commission) that oversee Greece's bailout package was a thing of the past. The question that arises here is, how far will Syriza go to pursue its stated agenda of nationalism and reduced austerity ?

Here is something to think about :

1. The problem with Mr.Tsipras plans of anti-austerity is that he shall require other European Nations to finance it. If other nations concede to his plan of reduced austerity and debt restructuring, it may encourage other debt burdened nations like Spain to similarly start populist revolts.
2. Greek banks still use the European Central Bank for its refinancing needs. Since a stand-off with the central bank is not something Greece could win, it may raise the possibility of Greece exiting from the Euro.
3. However the point above is invalid as the Conversion of a country's currency to Euro is meant to be irreversible. This means that once a Country is a part of the Eurozone it cannot exit from it (www.ecb.europa.eu). Hence, if Greece decides to revert back to the Drachma (Its Currency before it became a part of the Eurozone in 2001) it would mean dissolution of the Euro. Dissolution of the 2nd most commonly held reserve currency. I don't really need to write the economic implications of that. Needless to say that it would be simply disastrous on a very VERY large scale.
4. Greece's exit from the Eurozone could also mean that it refuses to pay off its debt obligations to its member nations, since it will no longer be a part of the Eurozone. This can then spell trouble for the banks and governments of Germany, France, Netherlands and other nations/institutions who have lent money to Greece

Although Syriza states that it is committed to remain in the Eurozone, the future of the party's activities and how exactly Mr.Tsipras implements his unrealistic belief of anti-austerity in a country plagues by mounting debt, remains to be seen.

- Pooja Panikkar, SYBFM

Quantitative Easing : Has it worked ?

It is understood that, a decrease in interest rates increases the money supply. But what happens when money supply does not increase, even when interest rates are at a bare minimum? This problem was faced by the US Federal Reserve when it tried to revive the US economy post the 2008 financial crisis. In an attempt to revive the economy, Quantitative Easing was used.

The concept of Quantitative Easing involves the central bank printing more money against nothing. Theoretically, this would increase spending resulting in increased demand for goods and services, leading to job creation and, ultimately, creating economic vitality.

In the wake of the 2008 financial crisis, QE was implemented in different parts of the world with varying degree's of effectiveness.

United States

The Federal Reserve began its first round of quantitative easing in November 2008. It spent a total of $1.7 trillion purchasing mortgage-backed securities and US Treasury bonds from private investors. In this time, the prices of financial assets such as stocks and corporate debt increased markedly, providing compelling evidence of financial recovery resulting from QE.

United Kingdom

However, in the UK, Bank of England implemented QE by creating central bank credits which were used to buy government bonds from commercial banks rather than from the government directly. The British banking system is concentrated with just five banks controlling 90% of deposits. It was seen that the Big banks wanted to lend to big firms that gave big bonuses. They were not interested in lending to small firms even though small firms need the credit and account for 70% of UK employment. Compare that to the US where 70% of deposits are held by 2,000 banks. That's why QE failed in the UK.

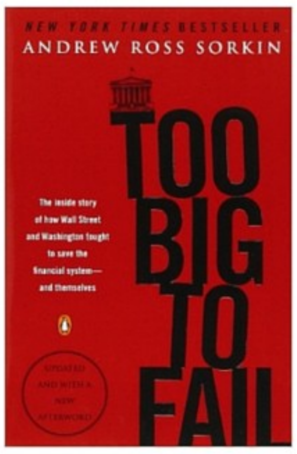
Looking at the above examples we can conclude that QE can work in an economy like the US which has strong capital markets, however it may fail ineconomies like the UK which , in contrast have a strong banking system.

- Pooja Panikkar, SYBFM

Events

- Epsilon : Research Paper Competition
  N.M College
  14 Feb
- Details :
  8446964172

Goodread's



Too Big To Fail

by Andrew Ross Sorkin

Written from an insiders perspective about the 2008 financial crisis that rocked the world. It is written in a story telling format, so much so that its like reading a thriller/mystery instead of a non fiction

Whats New on T.V :

Indianomics

Where: CNBC TV 18

When: Sat, 10:30-11:00

What: Indianomics gives viewers an insight on the Indian economy, gathering from the cues on what is happening in the Global economy