

ANATOMY OF ECONOMIC CRISES: A HISTORICAL PERSPECTIVE

Ekonomik Krizler Anatomisi: Tarihsel Bir Perspektif

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ABSTRACT

The paper provides a critical review of the explanations of the crisis's history. It also contributes to the literature by analyzing the link between asymmetric information and crises in general. Specifically, it is argued that asymmetric information played a leading role in all crises by causing speculation and deterioration in price mechanism. Paper shows that historically, economic crises are seen with sufficient asymmetric information and speculation within. Paper argues that asymmetric information cause speculation or lack of confidence and panic respectively. Moreover, paper argues that bubbles are strongly correlated with asymmetric information as well. The first part of the paper makes an insight of neoclassical economics and crises in general. The perception behind neoclassical economics and its defects are reviewed with respect to crises in history. Afterward the economic transition mechanism and the spread of an economic crisis and bubbles analyzed. Lastly, from Tulipmania to global financial crisis, the mechanism of a crisis and the significant crises in history analyzed respectively. The conclusion and approach of the paper provides an insight to asymmetric information and economic crises in economic history.

Key Words: Economic Crises History, Asymmetric Information, Financial Bubbles

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alıřma ekonomik krizler tarihine dair bir deęerlendirme yaparken, asimetrik enformasyon ve ekonomik krizler tarihi arasında bir baęlantı kurarak literatre katkıda bulunmaktadır. zellikle, asimetrik bilginin spekulasyona neden olduęu, fiyat mekanizmasını bozarak ekonomik krizlerde önemli bir rol oynadıęı tartiřılmaktadır. alıřma tarihsel olarak ekonomik krizlerin yeteri kadar asimetrik enformasyon ve asimetrik enformasyonun neden olduęu spekulasyon veya gven eksiklięinden kaynaklandıęını gstermektedir. alıřmada asimetrik enformasyonun kriz ařamasında panięe neden olduęunu vurgulamaktadır. Dahası, alıřma finansal balonların da asimetrik enformasyon ile gçl bir iliřkisi olduęunu vurgulamaktadır. alıřmanın ilk kısmı neoklasik iktisat ve genel olarak krizler hakkında tarihsel bir perspektif geliřtirmektedir. Neoklasik iktisadın ardındaki algı ve eksiklikleri tarihteki krizler ile ilintili olarak tartiřılmıřtır. Sonraki blmlerde krizleri ve finansal balonları oluřturan mekanizma ve ekonomik krizlerin ve finansal balonların oluřması ve yayılması incelenmiřtir. Son olarak, lale ılgınlıęından kresel finans krizine kadar, krizlerin mekanizmaları ve tarihteki önemli ekonomik krizler sırası ile incelenmiřtir. Sonu ve yaklařım olarak alıřma ekonomik krizler tarihine ve asimetrik enformasyon ile iliřkilerine tarihsel bir bakıř saęlamaktadır.

Anahtar Kelimeler: Ekonomik Krizler Tarihi, Asimetrik Enformasyon, Finansal Balonlar

1. INTRODUCTION

While every crisis and predicament undermine the claim of neoclassical economics as a science and belief in neoclassical economics, the economy itself had to find the way out of crises every single time when it confronts crises. In this context, the debate between neoclassical economics and heterodox economics comes to light again and new proposals are needed to make for more reasonable insights. In particular, contrary to what neoclassical economics claims, the claim that the market's own dynamics mislead economic units, disrupt capital allocation and cause crises behind the scenes gained strength. What neoclassical economics, in other words, market fundamentalism claims that market dynamics and especially finance is supposed to allocate capital accordingly and manage risk by allocating capital among economic agents. However, history has shown that capitalism or in other words mainstream economics has not been successful and as a result crises have taken place apparently.

As Marx noted capitalism, related to crises systematically and creates them. Though Marx relates crises decreasing return to scale and profits, history shows that the reason behind crises is misleading price mechanism which is the only 'complete' information that determines what to produce and what amount to

produce as well. In this way, deterioration in price mechanism is able to cause the whole production regime deviate from optimality which is called 'a crisis'.

All crises have something in common and all crises have something different in some aspects. In this regard, to prevent crises, it is crucial to analyze crises' common aspects historically and comprehensively and the reasons behind crises are essential to be understood and analyzed as well. Sooner or later a financial bubble causes an economic crisis in a restricted economy or in a broader geography, such as 2007 global financial crisis. Historically speculation creates bubbles and what makes bubbles possible is asymmetric information and manipulation in some cases; more generally, asymmetric information which is an embedded defect of capitalism. A financial crisis is a disruption of financial markets that result in inefficiency and caused by moral hazard and adverse selection (Mishkin, 1992: 117). In fact, asymmetric information is the reason behind moral hazard or adverse selection indeed. In this way, information asymmetry creates financial crises as well. As neoclassical economics assumes that the rationality and behavior depend on information current and future return of assets, and deviation from market fundamental value is more likely accepted as irrationality. However rational bubbles based on deviation from market fundamental value is also mentioned as rational deviation (Blanchard, 1982). In other words, rational crises are possible on neoclassical basis.

However, with 2007 global financial crisis, it is obvious to economists that finance can create risky assets and cause bubbles although finance is supposed to reduce risk and allocate capital effectively. Another significant fact is that the invention of new financial assets and derivatives is possibly able to increase the risk appetite and increases the risk rather than reducing the risk of both supply and demand side of finance (Şimşek, 2013). More complex financial systems and financial tools are hard to manage or rank, moreover complex financial system is more fragile and enables crises to extend and rapidly malfunction the whole system. In addition, more complex tools or in other words more financial derivatives are investment tools for households those need more finance knowledge to grasp and evaluate the risk sufficiently. For this reason, financial system invented ranking institutions to analyze risk which makes financial system more complex and related indeed. The aim of ranking institutions is to evaluate and share information regarding risk, in other words to prevent asymmetric information. Asymmetric information is the fact that any seller or one side of a trade knows more about the interaction and the good. A job applicant, or buyer of an insurance policy know more about risk or the value of the subjected good or client. So, what about the prices if one side is more informed than the other? (Löfgren, Persson, & Weibull, 2002). In this regard, Akerlof's 'The Market for 'Lemons': Quality Uncertainty and the Market Mechanism' (1970), Spence's 'Job Market Signaling' (1972), Stiglitz and Rothschild's 'Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information' (1976), emphasized the importance of information in interactions which conclude inefficiency in a market.

Another common aspect of crises is that, apart from supply shocks caused by nature or disasters, bubbles and crises most generally come into place with asymmetric information. In fact, natural disasters are also a sort of asymmetric information that cannot be prevented. Especially bubbles happen due to asymmetric information and speculation with it. All bubbles create crises eventually, however not all crises come to place due to the price bubbles. However, crises are possible to differ such as debt crisis or political crises which turn into economic crises and shocks as mentioned before. After 2007 financial crises, neoclassical economics and moreover capitalism are criticized with regard to crises and creating bubbles within. In this context, to make an insight regarding asymmetric information, bubbles and crises in economic history are not only essential but also help to understand how real economy works and whether overlap economic doctrines. In this way theories also can be revised.

2. NEOCLASSICAL ECONOMICS AND CRISES IN HISTORY

Before classical physics people used to try to comprehend events and the universe by reasoning, However after discovery of mechanics, mankind discovered that the world is a system with rules which works like a machine. People who look at events and matter from this perspective have begun to believe in a mechanical and established world order that does not need anything else to work. The success of newtonian physics in the 17th century was to develop a coherent mathematical theory and to move this solid foundation to the 20th century. Newton used mathematics more strongly than his contemporaries. Descartes, which we now know as differential calculus, is used to describe the motion of objects and has developed a whole new method beyond the technique of Galileo (Capra, 1982: 64). In this context, the economics as a science was

an attempt to define and developed determinist relations among economic agents. Newtonian physics has left profound traces and deep affections from Karl Marx to Adam Smith. Since the deterministic perspective, there is no room for uncertainty in Newtonian physics, and knowing the state of the system at a given time means that all times can be calculated. Today, neoclassical economics still strongly follows Newtonian physics with uncertainty that can be calculated and reduced to probability. Neoclassical economics, also influenced by Newtonian physics and claims to be a nomothetic science that can be observed and works with certain rules. Nomothetic sciences are normative, reproducible and observable sciences like natural sciences as physics. On the other hand, idiographic sciences are descriptive and descriptive sciences which are not very observable and repetitive are based on knowledge, experience and practice. Such sciences prefer hermeneutic, that is more qualitative and qualitative methods based on interpretation. (Wallerstein, 2014: 94). The dichotomy of economics on the other hand, comes from its unpredictable nature as a social science. Although economics claims to be a nomothetic science like physics from time to time, it is more in line with the definition of idiographic science by breaking its laws particularly during crises and causing crises either. After Jan Tinbergen who was a physicist and Nobel Prize winner in economics, modern economics received general terminology and notations such as flexibility, equilibrium and stability from physics rather than mathematics (Mitchell, 1998: 86). Although classical economics claims to be a nomothetic science by emphasizing mathematics within, heterodox economics has been criticizing neoclassical economics for its rules and adhere to systemic crises. As using more mathematical methods to create theory and to analyze crises, it doesn't seem possible to end this discussion. However, crises are the reason questioning economics as a science. It should be noted that neither historicism nor idiographic disciplines of similar definition do not exclude numerical methods. In many heterodox schools, teaching of neoclassical economics aim to grasp the theory as a whole in general. On the other hand, nomothetic sciences tend to exclude idiographic sciences.

Especially after 80's and 90's, with neoliberal policies, crises take more place in economic debates and in real economy such as twin crises (Kaminsky, Reinhart: 1999) which includes banking and currency crises at the same time. In this context crises are must be analyzed historically to grasp the mechanism of economic and financial dynamics and to develop new approaches to prevent. Especially with the global crisis of 2007, the claim that finance creates risk and misallocates capital rather than managing risk and allocate capital correctly and efficiently has started to be expressed (Stiglitz, 2010). The moral hazard, notoriously known as too big to fail, which arose as a result of certain financial institutions taking over the system and not being responsible, re-demonstrated the inadequacy of neoclassical economics and its arguments.

Neoliberal policies are based on two main pillars. The first is to transform local and financial markets into international markets through deregulations, and to give the government a smaller role through privatization, borrowing and maintaining financial deficits (Ostry, Loungani, Furci, 2016: 38). While the general framework of neoliberal policies is like this, with a history ranging from the Great Depression to the oil crisis of the 70s and finally to the global financial crisis of 2007, the results cannot be said to be very satisfactory.

In this context, economic doctrines and crises are revised and new debates are on the agenda of economic institutions and scholars. Heterodox economics reiterates its arguments once more and gains popularity again and again by shaking the belief that the market is operating economy effectively, locally and globally either. Not only heterodox economics, even new Keynesian economists such as Stiglitz suggest that regulations and new perspectives are to be made.

The first and well know bubble is 'Tulipmania'; following bubble in tulip bulbs prices in Amsterdam, an economic crisis occurred accordingly. As Kindleberger noted, manias, in other words euphoria, are infrequent and related with expansion phase of business cycles and never identical (Kindleberger, Aliber, 2005: 10-11, 113). Mania is a phase that is sort of paying insanely high prices for some specific goods or commodity in specific sectors. Apart from how we name the phases, all crises include condensation time that ends overvaluation in some specific sectors or goods. When the valuation is overvalued apparently, panic begins, the crisis hits, bankruptcies are seen widely.

As it seems clear in the beginning of 'Tulipmania' tulip prices abruptly upsurge several hundred percent in the autumn of 1636, in addition the rise in the exotic species of bulbs prices were even higher. Another important aspect of tulip bulb is that the bulbs need six to eight months before it begins to bloom and after

it blooms, there would be many more bulbs produced by the previous one (Kindleberger, Aliber, 2005: 115). In this way the nature of tulip market is unpredictable in terms of the amount. The unpredictable supply of a market creates more fluctuated prices indeed. The scarcity is possible to turn into abundance months ahead. Likewise, in real estate market, producers accept current prices or valuation of derivatives as a signal, however after producing new real estate prices would be low depending on increasing supply comparatively. As Roubini noted, the decline in U.S. real estate market reached %20-%30 in compare to 2006 peak (Roubini, 2008). So, especially rigidity of prices or market structure provide a basis to crises.

The first and foremost assumption of neoclassical economics is that market works well in case necessary conditions are ensured such as competition, information, mobility. What makes a market and household perfectly informed is the only and sufficient tool is price mechanism. Once this condition holds, market would work perfectly and optimize all resources. However, from Tulipmania to 2008 global financial crisis, crises makes scholars question whether the price mechanism works or not.

2.1. Mechanism of Crises

During 'normal' times in an economy, production is able to fluctuate up and down or even creates cycles. However, what makes a case a crisis is that sudden destruction which creates 'pain' among household or firms. In other words, a crisis is a sudden situation that makes firms bankrupt and household lose their jobs. Apart from normal times, crises fluctuate with huge waves and creates more unemployment rates due to sudden bankruptcies. Without rapid increasing unemployment rate or bankruptcies, it is not proper to call it a 'crisis'. If it comes in middle or long term, the whole economy is able to adopt the new situation and it doesn't end up with bankruptcies and high unemployment rates.

Kindleberger divides crises into three phases: insanity panic and collapse. These phases are common for all crises. During the insanity phase, prices have risen irrationally in certain goods or sectors and people have increased demand in the event of insanity, and in the panic period, it is understood that prices are not rational and fast sales are coming. The collapse actually came along with insanity and emerged as prices 'crashed quickly (Kindleberger, Aliber, 2005). Indeed, almost all the crises of capitalism have been caused by the disruption of the price mechanism and the disruption of resource allocation. The lack of optimal allocation of resources slows down the economy and growth, in a global economy, it takes a long time to recover as it affects the whole system. Consequently, crises turn capitalism into a chaotic system.

With increasing importance of finance, crises have more dimensions to analyze and prevent. What differs financial crises is that finance is able to create more asymmetric information in compare to a traditional 19th-20th century real economy dynamics itself. On the other hand, finance structurally more correlated with all sectors; hence the diffusion of asymmetric information and malicious systemic risk is much more contagious in compare to pre information intense economic models in the past. There are several factors cause financial crises, such as increases in interest rates, stock market declines, increase in uncertainty, bank panics, declines in aggregate price level (Mishkin, 1992: 118).

Both crises have something in common that is deterioration of resource allocation, inefficiency and consequent widespread unemployment. First of all, as Kindelbergen noted (2005) manias phase of crises is price bubbles which is caused by misinformation or speculation. Speculation is a kind of asymmetric information as well. Speculative bubble is deviation from some assets' fundamental value (Xiao,2010).

With speculation, price mechanism which depends on well and perfectly informed economic agencies, doesn't work as it is supposed to and misleads supply and demand consequently. During this time, it is expected that increasing insolvent debt stocks due to increasing prices and lucrative investment opportunities. In this way, resources are used in an inefficient manner and bubbles gets higher and creates higher level of debt. Lastly, the demand and the debt cannot be sustained and the whole economy crushed in a short period of time, bankruptcies come into place and unemployment increases abruptly. This short period and adaptation of 'new' well informed situation is called an economic crisis. In other words, crises are the beginnings of symmetric information in an economy.

According to Brunnermeier (2001) all bubbles are related to asymmetric information. Asymmetric information causes even banking crises or public debt crises such as Greece experienced in 2010. In Greece crises, both politicians or bureaucrats knew that Greece is insolvent in middle term or in long term. However, populism provided more votes to politicians and lucrative investments for European Union, in particular for German companies. Abreu and Brunnermeier (2003) also showed that bubbles occurs

because of asymmetric information when the prices are above its fundamental value. However, after a certain point investor are able to notice a rising bubble but not the same time because of asymmetric information. Even if some investors are aware of bubble, they may not know when the bubble started (Asako, Funaki, Ueda, & Uto, 2020). Hence momentum traders almost always exist in every market, the overvaluation is possible to continue with the momentum of a new information in market (Caginalp; Porter; Smith, 2001:93). There are several factors cause asymmetric information and following financial crises, such as deterioration of financial sector balance sheets, increase in interest rates and uncertainty, change in asset prices (Hahm; Mishkin, 2000: 22).

Economic expansion and contraction cycles have two basic elements, the first is the internal dynamics of the economy and the second is the regulations and interventions (Minsky, 1992). The ratio, quantity, or absence of these two will have a major impact on the outcome. All known economic systems and doctrines aim to increase the well-being of people; obviously this is the most efficient use of resources that holds allocation efficiency. Efficient distribution of these resources is provided by allocative efficiency. Criticisms also indicate that in some cases or systems, resources are not allocated appropriately. Economic crises are the basis of these criticisms. As Marx noted, capitalism had caused crises time to time and it seems it is systemic. As economic theory produces new prescriptions, crises and problems come in disguise and each crises produces new theoretical approaches. Although the shape and the content of the crises change, each crises deteriorates resource allocation and finally creates unemployment.

Even though the dictionary passes as a difficult period, crisis, depression, collapse; these words also need explanation indeed, for most cases it is not even clear what the crisis is. The crisis has a unique meaning in the social sciences; it is the failure of a system to sustain itself (Palley, 2012, 141). In general, crisis is an unexpected, unwanted and destructive situation that is managed or needs to be managed. Even though a crisis managed well, it is a new exploration of optimization far from previous optimum without crises. Therefore, it is essential that an adaptation and refers to a break. The failure of the system is also manifested by bankruptcies. The reason for the breaks, namely the crisis, is that the system has deficiencies or deficits. These deficiencies cause destruction. So how do these destructions affect the whole economy? In short, a crisis is obvious creating unemployment and depression. It is not possible to imagine a crisis in an economy where everyone has a job and income accordingly. Since the crisis is caused by deterioration in resource allocation, there cannot be a crisis that does not result in unemployment. Hence, the household suffers a 'sharp' loss of wealth and crises makes itself felt in a wide range from bankruptcies, suicides, murders to robberies.

During pre-crises time while the resources are supposed to distributed optimal in a competitive, well informed market economy, resources are accumulated in some specific speculative sectors and the economy slows down or shrinks; until resources are redistributed and the economy is in optimal distribution again. During this period, bankruptcy and unemployment increases expectedly. Although capitalism or neoclassical economics, as its current representative doctrine, learn from every crisis, the crises have not ceased apparently.

It may be the tulip bulb subject to speculation or the real estate sector as it was in 2008 global financial crises. The basic assumption of classical economics is that the economy has a balance and optimization under some specific conditions. In particular, neoclassical economics, shaped by Smith and Walras' perspective, assumes that economy is a constantly stable and self-sustaining system (Minsky, 1992), where crises would not exist in such a system. However, assumptions those neoclassical economics makes, do not hold most of the time. In particular, perfect information for economic agents is a very rare situation practically.

3. FROM TULIPMANIA TO 2007 GLOBAL FINANCIAL CRISIS

As Marx argues, capitalism has experienced constant systemic crises and has evolved into a chaotic system, particularly in the last century when globalization and information economics developed deeply. First and foremost, the most significant characteristic of capitalism is arguably financialization and so price mechanism as well. Hence, financialization and growing trade volume put price mechanism into the center of crises with an increasing significance. The first and foremost function of price mechanism is as known to provide the whole information of various components such as supply&demand and value of the good etc.

In September 2008, Fannie Mae and Freddie Mac were rescued by US. government to prevent any possible systemic problems. Due this rescue, classical economists asserted that government impede market to work efficiently and cause moral hazard by urging other banks to follow inefficient investments. In this regard, state was guilty not the market economy and this case doesn't justify theories those blaming market economy to be inefficient in allocation of resources. (Marshall, Concha, 2012: 558). This theory became widespread with the phrase 'too big to fail'. Thus, financial system and particularly banks were too big to let it sink. Even though rescue of Fannie Mae and Freddie Mac was a signal for economic agents, there were not sufficient information regarding how risky the derivatives are those almost all investment banks hold.

The tulipmania which is the first famous bubble in economic history follows a similar way. Until mania period tulip bulbs are not pricey much above other rare precious plant species. However, in the 1630s, after war (1618,1648) an amount of credit created and subject to some speculative activities. As tulips used a status quo symbol in high society, the prices of tulips rose quickly (Vogel, 2018:47). Apart from art, Tulip bulbs were subject to speculation. Art in Holland was stable in terms of prices, that meant speculation in Tulip prices related to art is pointless (Goldgar, 2007: 189). In February 1637, prices suddenly declined, and bulbs were not possible to sold even one-tenth of their highest prices (Garber, 1990: 37). In this case, it is obvious that bulb supply increased as prices went up. However asymmetric information also increased in the meanwhile.

Tulip bulb prices doubled in the autumn of 1636, and the increase in exotic species is even greater. As in many sectors that caused the crisis, prices continue to rise as supply is less flexible and prices are unpredictable. Growing tulip bulbs takes weeks, so supply leads to cobb-web fluctuations in prices, and this fluctuation leads to greater fluctuations. The fall in the prices of tulip bulbs results in a slowdown in the Dutch economy (Kindleberger, Aliber, 2005: 99-100). The Great Depression, on the other hand, resulted in the sinking companies with the unbelievable rise and collapse of the stock market and finally the deepening of unemployment as in every crisis. By the end of the 1920s, when the American economy had risen rapidly, despite the collapse of the two banks, the belief that households would continue to rise was strong. Thus, they withdrew their deposits in banks and bought stocks. As an example of asymmetric information, there was a 'bet' that the stock market would rise only with the herd psychology without knowing the status of the company, sector and demand. Finally, as in every crisis, this period of insanity resulted in panic. On October 24, 1929, when New York stock market collapsed, the crisis rose. Gross national product decreased by 1/3 and unemployment increased to 25% (Ay, Uçar, 2015: 12). Since creating new markets enables create more asymmetric information, with increasing and creating new markets, also in American economic history was full of speculation and bubbles. In nineteenth century, during the rapid development of America, creating new markets, there was always speculative splurge in twenty-thirty years period of time (Rapp, 2009 :117)

Especially in emerging countries, since institutions are not solid enough, populist policies are becoming a common agenda. Populist policies are also a kind of asymmetric information that is not easy to analyzed by people but only technocrats. As it was occurred in Mexico crisis, domestic investors are able to acquire much more information than foreign investors and due to this knowledge ease, domestic investors prevent possible crises before the crush or devaluation likewise in Mexico (Frankel; Schmukler, 1996: 4). In Japan during 1990's also a bubble occurred in asset prices which depends on financial propagation and ended up a deep recession (Park, 2001: 128). Korean crisis was also interpreted as a consequence of asymmetric information despite the fact that Korean economy was showing a satisfying growth performance with a sustainable low current account balance (1997: %2) and balanced government budget. However, although external debt stock was not unsustainable, short-term external liabilities caused fragility in Korean economy. Increase in uncertainty in stock market caused firms make risky investments. Following adverse selection and moral hazard problems those are other aspects of asymmetric information drag Korean economy into a financial crisis (Hahm; Mishkin, 2000).

Another aspect of crises and asymmetric information is the exchange rate that is also a kind of information regarding the value of domestic currency. However, in case central banks determine the rate, which is called fixed exchange rate, official rate is also possible to create misleading information. In this regard, fixed exchange rate can be count as another kind of asymmetric information which was abandoned after 2000s in many countries. In Argentina, with populist expansionary monetary policy and fixed exchange rate in 1990's, starting from 1999, due to external shocks, government policies and budget deficit were



believed unsustainable and through losing confidence, investors and borrowers ran on banks for deposit withdrawals which was concluded crisis at the end of 2001 (Mulino, Giallonardo, & Gorga, B. 2015). Turkey also seen fixed exchange economic crises many times in the last century.

According to Minsky (1992), behind the development of the capitalist economy is the exchange of the current money with the future money, and the financialization of this economy is its indirect uncertainty and its detachment from the real axis. As real estate prices soared in the US, financial institutions issued derivative instruments linked to the real estate market. These derivatives were later described as toxic papers. Real estate prices soared so quickly that it made sense to people to buy a second home and pay the mortgage fees with his rent. This was reflected in the demand for new loans. As the credit potential fed the real estate sector, prices rose and resources began to flow into the real estate sector. Derivatives received their value from the real estate sector, which brought interest on paid loans. After a while, derivative instruments began to be valued independently, and those who held the papers were unable to estimate the value of the papers, but prices were constantly rising. This was also a case of asymmetric information. As in the other balloons, no one could predict why prices were rising. Until, as Nouriel Roubini predicted, real estate supply came to extreme levels and real estate prices fell. Roubini predicted that property prices would fall by 20-30% compared to 2006, when peaked. When he did this analysis, there was a decrease of 8% (Roubini, 2008). The fall in real estate prices undermined the return of risky loans, called subprime mortgages and non-repayable loans put banks in a difficult position. Accordingly, the value of derivative assets began to decline rapidly. The downfall of the crisis was realized. Those who could not pay their debts caused others to fail to pay their debts and the collapse spread under the domino effect. Liberalization accelerated the spread of the crisis as the countries were more integrated. Globalization also helped asymmetric information to diffuse globally as it was never before.

As in Greece crisis, debtors and lenders sometimes assumes debts are sustainable, however this is another aspect of asymmetric information which is based on not a complete set of information but assumptions. As crisis grew deeper, belief in Greece sustainable debt stock shaken through president of the Eurogroup Jean Claude Juncker stated 'We are telling financial markets: Look out, we're not abandoning Greece' (Bordo; James, 2014:282).

The oil crisis of 1973 was not based on asymmetric information or herd psychology, unlike previous crises. It stems from the raw material dependence of the world economy, revealing another aspect of capitalism. A supply-side contraction caused stagflation and Keynesian policies did not foresee stagflation (Ay, Uçar, 2015: 17). In this context, capitalism has faced a new danger, shaken confidence in Keynesian policies and changed the prescription again. Aside from other crises, supply shocks inherently include unpredictable asymmetric information. The global financial crisis is the last of the major known crises. Moreover 2008 crisis includes other crises in terms of many features from asymmetric information to real estate bubble and speculation.

4. CONCLUSION

From Tulipmania to global financial crisis, all crises, in particular bubbles, related to asymmetric information somehow and due to insolvent debt stocks. Since crises creates unemployment and bankruptcies, some of the agents have lack of information to avoid catastrophic consequences of a coming crisis. Thus, no crisis is possible without asymmetric information and due insolvent debt stocks. Asymmetric information causes speculation and deterioration of price mechanism. In this way, households are willing to get more assets even though the increasing costs and debt stocks. However, sooner or later resource allocation is disrupted and the whole economy goes apart from optimality. Hence, crises came up and it takes long time to sustain optimality again. During this time bankrupts occurs and unemployment arises, that is called crisis or even depression in terms of economics. As historical perspective, though crises occurs because of similar economic inefficiencies, crises continue to occur in different times, even in modern economies with complex financial systems.

To analyze and comprehend the mechanism of crises and build some perspectives which is common for all crises and develop an insight is crucial to prevent possible future crises. In this context, what is common is asymmetric information and increasing insolvent debt which is caused by speculation and risk appetite. Historical perspective shows that to prevent asymmetric information somehow means prevent speculation and possible economic crises or particularly bubbles which makes deterioration of resource efficiency. As crises continue, not only capitalism but also neoclassical economics, even soft approaches, will probably

readjust or justify new theories and analyses. Hence total information produced by economy is accelerating immensely, today there is more need to regulate and clarify the information produced in economy. In conclusion, information plays a key role in crises literature not only in contemporary economic theory but also in history of economic crises.

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