GROUP WORK PROJECT # _2 M5__ MScFE 560: FINANCIAL MARKETS
GROUP NUMBER: __202__________

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Statement of integrity: By typing the names of all group members in the text boxes below, you confirm that the assignment submitted is original work produced by the group (excluding any non-contributing members identified with an "X" above).	
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Technical Interviewee:

Technical interviewee with solid financial knowledge

The majority of the existing understanding of the causes and consequences of financial literacy is based on survey data. A condensed collection of easy-to-incorporate survey questions on the impacts of inflation, interest rate compounding, and security diversification was put out by Lusardi and Mitchell (2008). In order to make wise judgments about matters of home finance, it is assumed that people should be aware of the answers to these questions. In fact, numerous studies have demonstrated that, even after adjusting for socioeconomic factors and cognitive ability, measures of financial literacy based on the answers to such straightforward survey questions are correlated with the effectiveness of households' financial decisions as well as with long-term financial outcomes This is true for young people who are just starting to manage their own finances as well as for older adults and teens, and it applies to both developed and developing nations.

Technical interviewee will address issues of liquidity

Financial liquidity is a difficult concept to grasp, yet it is crucial to the financial system's smooth operation. In truth, the financial market's developments since August 2007 have all the characteristics of elevated financing liquidity risk, but they also show how this kind of risk may taint market liquidity and force central banks to take action. In order to provide a coherent and consistent account of liquidity and liquidity risk in the financial system, this project integrates the literature on liquidity from many disciplines of study in a schematic and holistic fashion.

Technical interviewee on Leverage

Notably, the degree to which a company or investor uses borrowed funds is referred to as financial leverage. This makes it a gauge of how much a company finances its assets with debt and equity. Financial leverage rises as debt does. john (2014). Financial leverage is a term used to describe how much stock and debt a company uses to fund its assets. A business may use both debt and equity to fund its investments. Preference capital is another option for the business. Regardless of the company's rate of return on assets, the rate of interest on debt is determined. A corporation uses financial leverage to try to outperform its expenses on the fixed charges funds. Leverage in the financial system rises as debt does. Financial leverage is really a metric used to assess how often a firm's capital structure is used. The extent of the firm's performance reflects how motivated managers of businesses with significant increases in liabilities are to appease loan providers via profit management.

Technical interviewee on moral hazards

When an agent is more likely to take risks because the possible consequences of doing so would be paid by a third party, a moral hazard scenario arises. Because the person or organization may choose their course of action without having to consider all the possible bad outcomes, moral hazard might result. Moral hazard must be controlled since it is a defining aspect of the financial system, the economy in general, and businesses in particular. It is challenging to understand the moral hazard risk borne by third parties due to moral hazard catalyst elements, including information asymmetry Gonzalo, 2020 for a more discussion on catalysts. In order to prevent the danger of harming stakeholders or third parties, organizations must actively manage this risk via the use of control or guarantee systems. The issue has been identified at this point.

Journalist:

Journalist: It is said that the correlation between different assets is increasing. For example, recently, stocks and bonds have fallen at the same time. What is the impact on the financial system?

Non-Tech: The most frightening thing about the financial system is that everyone has problems at the same time. A collective default would trigger a systemic risk. Many risk diversification methods will fail.

Journalist: Can you give us an example? How would it trigger a systemic risk?

Non-Tech: Suppose there is bad news and everyone wants to sell their assets. There are not enough buyers in the market at this time because there is now a perception that the asset will not go up. In this way, there is a liquidity crisis. People have to accept lower prices in order to get rid of the assets they have. In this way is the price continues to go down. Then it triggers more people to want to sell the asset.

Journalist: This is only a single stock problem, how will affect the entire financial system?

Non-Tech: When people buy a house, they borrow money from the bank. And the house is the bank's collateral. If everyone defaults at the same time, the loan will not be repaid. The bank will get the house and put it on the market for auction. At this time, the supply of houses in the market is much larger than the demand, and banks must sell at low prices. This is connected to the previous story.

Journalist: Indeed, this is a problem. How to avoid this problem? It is impossible for people to come up with huge amounts of cash to buy a house without borrowing. These financial services are necessary. How can we find a balance between benefits and risks?

Non-Tech: This is when regulation is important.

Journalist: Who is responsible for regulation? And how do they regulate it?

Non-Tech: The government could start with regulations that require banks to check the credit of borrowers. Reduce the chances of banks lending money to people who can't pay them back.

Journalist: Is there any oher way?

Non-Tech: In the past, financial crises have occurred after a period of time with the financial bubble. The financial bubble is due to the high demand for capital in the market. The government can influence the market through interest rates. Raising interest rates to keep the market from overheating. The cost of borrowing has increased, and people are afraid to do leveraged operations at will.

Journalist: Understand. That is, the government not only plays the role of rule-making, but also must monitor the state of the market and provide timely adjustments.

Non-Tech: That's right. Bursting the bubble is often accompanied by pain. Economic data will not perform well. So it's all about balancing benefits and risks.

Journalist: Thank you for your answer. Let us know the potential crisis. It seems that the increased correlation between assets really increases the chance of systemic crises, and we need to pay more attention to these issues.