TYPOLOGY OF CRISES – DESCRIPTION OF SHOCK PHENOMENON AND INFUENCE HAD BY NATURAL RESOURCES

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Abstract
This research paper represents a light approach on how crises appear, how they evolve and how could we create a protection mechanism against them. The main bias of this paper is situated on the idea of how shocks seen from asymmetrical information could evolve in real economic or financial "storms", especially when they are ignited from the fact that political, economic and financial factors could influence a drop in available resources although those aren't lowered from natural causes. During the paper it could be seen an approach that tries to link today's needs in forecasting future crises and lessons from the past.
Keywords:
Crises, economic instability, currency, natural resources shocks

Introduction

Economic crises are the result of situations characterized through instability, followed by episodes of uncertainty, volatility increasing inequality between the economic, political and ideological components. The economic crisis is interconnected to the economic cycle, representing a phase of its accumulating and developing a surplus of goods, inconsistent with the capacity to purchase of the population, which limits economic the environment to a production decline, rising unemployment, bankruptcies; "These cycles correspond to financial crisis and are therefore inevitable in a market economy" (Peicuti, 2011).
National Bureau of Economic Research (NBER) defines crisis as "a significant decline in economic activity for several months reflected in the decline in GDP, decrease of individual income, reduction of employment, reduction of industrial production and consumption".
Financial crises are moments of stagnation, inflation and unemployment, all merged into a destabilizing mix that does not offer good prospects in the future even leading to economic collapse.

1. A light approach on crisis

Reinhart and Rogoff (2009) made a classification of various types of economic crisis. They considered that there are seven types of crisis, four of which are defined from a quantitative perspective, and the other three types depending upon the occurrence of a specific event.
Three types of crises are crises of inflation, deterioration of the currency and currency collapses – these are cases where the purchasing power of a currency is experiencing a steep decline. Prices skyrocket due to the crises marked as "price bubbles for goods", and that banking crises are cases that expose declines of low value goods, which may be a decline in the price of a particular capital or a decline in the net asset value of banking as a whole. Two other types of crisis – the crisis of foreign debt and domestic debt crisis – refers to budget deficits and state debts.
If we need to group these seven types of crises by their nature, they are made up as follows: currency crises, banking crises and crises of foreign debt.
Currency crisis is represented by a strong devaluation of the national currency. The degree of impairment varies according to the degree of development of the country. In the case of

developed countries will see a depreciation of 10% – 15% although it will be considered high, while the data on a country whose economy is developing, a depreciation of 20% – 25% is considered ample. From the point of view of Frankel and Rose (1996) we may bring into question the existence of a currency crisis when the national currency will have higher depreciation of 25% in a year. Thus, it is considered that currency crises are costly because of the implications and economic costs that it triggers. A stronger exchange rate change effects on the real economy: the growth rates, unemployment, real investment, external debt expressed in real terms.

Currency depreciation results in a decrease in the current account deficit through the mechanism of cheaper exports, although the amount of debt contracted from abroad will increase. Observe the transfer of wealth from the country that is in full development mode to developed countries that are most of the time the creditors for the emerging countries. Eichengreen and Hausmann (1999) used the phrase "original sin" to explain developing countries unable to borrow in their own currency. In their view, this inability is underlying structural problems of the economies of many countries in the developing world. Because of the original sin, even macroeconomic decisions that should be a palliative solution to problems (devaluation) can have adverse effects.

Debts incurred by the countries that are being developed are mostly denominated in foreign currencies (US dollar, euro). Lenders, who belong to developed countries, fearing a devaluation or inflation phenomenon that might arise in the countries in which they invest, emphasize the denomination of their claims in the currencies of countries in which they belong. Instead, the industrialized countries can borrow in their own currency. For example, Italy's debt is denominated in the euro, US dollar and Japanese yen. If these countries may hold foreign currency receivables and debts in its own currency, they are in an advantageous position. If the US would be affected by an asymmetric adverse shock to the aggregate demand then it will create a downward trend in the global demand for goods that are produced in the country, but the balance would be restored by the weak dollar. This eliminates the occurrence unemployment impairment and depreciation (Dinu et al., 2016).

The current account will improve by increasing exports and imports. Depreciation of the US dollar relative to other currencies will decrease the US debt and increased receivables from other countries, so there is a transfer of wealth from other countries to the concerned one.

For countries that are being developed if global demand for their products drops, the economic and financial effect of economic will be on the contrary. Of course national currency depreciation favors lowering the current account deficit due to cheaper exports, but it also increases the amount of external debt.

When a country is faced with a situation of default on external debt, it is often accompanied by a balance of payments crisis and even crises in the banking system. Decreased foreign exchange reserves may sometimes be the only way you can pay short-term external debt. If we deal with a fixed parity, decreased reserves reveals that maintaining fixed a exchange rate will not be achieved on a very long period. On the other hand, further depreciation against a speculative attack will hurt banks' balance sheets, which have national currency receivables and payables in foreign currencies.

Economic crises are conducted on so many levels, affecting all sides of economic activity and extend like a snowball. The origin of such crises may lie in a sudden stop (the exit of capital) in the currency market (for example: a speculative attack) or weaknesses in the banking system, according to the specifics of each economy.

It can record various types of shocks. These may affect the stability of the national currency. For example, rising oil prices, the neighbors of that country can be in unfavorable

circumstances, partner countries in terms of trade or even the country itself. A country that has adopted a fixed exchange rate and is destabilized by a shock internally, namely the decline of GDP will experience a decline in demand for currency, with downward pressure in the domestic currency, the central bank will be forced to intervene in the market to counterpart the decline until it will fulfill an equal level to the demand for money. In these circumstances, the central bank will sell foreign exchange reserves.
Another typology is the shock caused by the rise in interest rates internationally. To rein in the trend of depreciation, the measures to be taken by the central bank will be those of selling foreign exchange reserves, these measures leading to monetary contraction and rising interest rates (especially in the internal money market).

2. Key moments – crises based on shock resulted from resource scarcity
The world economy in the years 1981 – 1983 suffered from a severe recession. There was created a favorable environment that affected the capacity to pay foreign debts in emerging countries. One cause of this recession was seen in 1979 through the policy promoted by the United States, which has a powerful anti-inflationary policy nature that culminated in the rise of interest rates for the US dollar. Because many currencies were tied to the dollar, it had led to a general increase in interest rates worldwide. In terms of aggregate demand in developed countries, they were negative and perpetuated primarily by three channels:

- increased the value of the external debt that was denominated in dollars;
- increased the interest rate for contracted loans taken by emerging countries;
- the price levels decreased worldwide (as a result of the fact that the global demand decreased). The obtained income from exports decreased.

The crisis started in August of 1982, when the central bank made the announcement that Mexico has reached the stage where it depleted its foreign exchange reserves and will not be able to honor its foreign debt payment. Because there were economic similarities between Latin American countries, foreign investors have considered that it would be prudent to withdraw capital from the entire area, meaning countries such as: Argentina, Brazil, Chile. At that time the largest creditors in the Latin American area were banks. It was decided to close down credit lines and repay loans. The consequences of such measures were inability to repay debts for the countries part of Latin America.
The same happened to African countries, who were indebted to international financial institutions such as the IMF and World Bank. Asian countries have failed to honor their promises of payment. By the end of 1986, 40 countries had experienced severe problems with external financing.
A high incidence of banking crises worldwide was associated with a high incidence of sovereign debt in total external debt.
Value of sovereign debt began to rise with the onset of World War I (as happened in the case of banking crises) and continued to worsen during the Great Depression and the Second World War (when several advanced economies joined the ranks of those who were already in collapse). Decades that followed were relatively quiet until the debt crisis swept emerging markets in the 1980s and 1990s.
Banking crises in advanced economies significantly weigh down on global economic developments. The slowdown or outright contraction of economic activity tends to hit exports particularly bad, limiting the availability of foreign governments that lead to instability in emerging markets and hinder their ability to pay its foreign debt.
In a heterodox interpretation, David Kotz ranks downturns in four typologies. "In the first category, economic growth leads to a decrease in unemployment and increase the bargaining power of employees so that real wages grow faster than productivity, which at

some point becomes unsustainable" (Voinea, 2009). Contrary to Marx who believes that there is a so-called mass unemployment that when the economy is expanding, re-entering the workforce, and their presence in the system affects the relation between labor and capital; but its effects are correlated with the presence of market competition. Where there is competition, profits of companies do not know a real decline, because it can accommodate wage increases and thus will not trigger the crisis. But without a correlating rise in real wages with productivity growth, there remains a possible cause of economic crisis when we relate to the public sector, more so when it represents a substantial share of the total of employers by the state. "The second type of crisis is suboptimal consumption (opposite the first type of crisis), the real wages fall and can cause a crisis if their decline is not offset by increased public spending" (Voinea, 2009). "The third category is the excess of investment that can be associated with the concepts and structure of competition caused by neoliberal policies. Here we include the expansion of productive investments, for gaining market share, leading to excess in productive capacity "(Voinea, 2009). "The fourth type of crisis comes from speculative bubbles. The term speculative bubble refers to a situation where excessive public expectations about the future price of an asset, makes that asset's price to increases now" (Voinea, 2009). Profit growth relative to wages and household income growth have produced an increasing amount of investable funds, which tend to exceed investment opportunities. This creates favorable conditions for the development of asset bubbles, and such funds will find their usefulness in the purchase of assets such as real estate or securities. Once those investable funds enter a speculative bubble, for continued growth it requires a financial system that will lend easy money to feed the bubble, which in the case of a deregulated market and with a short-term vision, like that of neoliberal ideology will be prepared to do so. After the year 2000' program for deregulation of the financial sector, it created new mortgage lending practices that have targeted high volume of loanable funds used to purchase housing, providing important support for the real estate speculative bubble of this era.

Conclusions

Crises are moments of awareness of reality. No matter how much an economy grows and however much it may be able to do in time, there is a point from which everything falls apart. As if a balloon is inflated, you do not know from the start how much air it can take, but you'll find out when the bubble will burst, it is therefore very important that the economy measures all incoming flows and until the collapse realizes what triggered it and how we might avoid in the future. Although seizures are considered negative events, they inevitably lead to progress. Crises of any type are critical moments, and after such an episode, the trend will be positive.

Each existing economic crisis over the last centuries has led to a revolution in economic thinking, because a crisis means the failure of thinking. Although at first an economic theory seems plausible and how it will come alive will demonstrate the applicability and usefulness, when the economy will face a crisis will develop another economic theory meant to demonstrate what earlier wasn't considered and therefore there will always exist a better theory to replace the previous one.

In an era of globalization, an economic crisis is more dangerous than if you would have reached it in a state or a union of states. Although the crisis will be installed in all states which have economic ties, each country will experience a different intensity. Least developed countries that depend on powerful countries will feel the pain at a greater extent, those countries will have bigger problems and they will come back harder and with greater sacrifices.

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