



American financial crisis and its impact to Shanghai people in 2007-2008

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Abstract	
<p>Shanghai is the centre of economy of China and also the most developed city in China. The changes of the life of Shanghai people represent the trend of the life of Chinese citizens now and in the future.</p> <p>The American financial crisis began in 2007 and it continues as an global economic crisis. The objectives of this research is to study the American economic crisis and its impact to Shanghai people during the years 2007 and 2008.</p> <p>The thesis consists of two parts. qualitative and quantitative. The qualitative part studies the background of American financial crisis and how it effected on China's economy. The qualitative data was mainly collected from publications and internet. For the quantitative part, the main approach used was to make a survey of 125 Shanghai people, who represented in several vocations.</p> <p>The results from the research showed that the American financial crisis did effect on Shanghai people in various aspects. They faced challenges of searching job, lower salary, unstable stock market, unsatisfied with the model of financial management and insufficient confidence in China's economy. The results were obtained by researching the subprime mortgage, China's economy, and attitudes of Shanghai people.</p>	
Keywords American financial crisis, shanghai people, subprime mortgage, China, effect, economy	
Miscellaneous	

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1. INTRODUCTION

1.1. Background information

The global economy has already entered a recession, the financial industry is an integral part of the global economy. The overall success or failure of the global economy relies heavily on the financial industry.

The subprime mortgage crisis of America began in the year 2007, and after that the global financial market has been influenced a lot. Three The biggest five investment banks in US have already bankrupted, the other two are also endangering. For instance, Lehman Brothers had 158 years history. Therefore, it is crucial to first identify American financial crisis as well as its impact to China's economy.

Shanghai is the most important city of the biggest developing country in the world. It is also the center of economy and finance of China. Shanghai is described as an inner force that drives the economy of China. The life of Shanghai people has been changed since American financial crisis began. It is an indispensable asset to investigate the changes of Shanghai people's life for Shanghai economy and even China economy, which can help organizations to make new policies in the position of people. Even though it still needs a long time, at least some years, to improve the economy and the financial system of global, but the policies of a city can be improved through some means in a shorter time span.

As far as the issue of American financial crisis is concerned, every country or city have been tried to protect the local economy or the life of people. The keys to facing with the crisis are to communicate with the people, spend time

discovering what effects most, thereafter construct and implement a suitable programme based on the needs of the people. In line with the above purpose, the aim of this study is to investigate the American financial crisis its impact to China's economy and to the life of Shanghai people in 2007-2008.

1.2. Research Questions

The purpose of the research is to answer the following questions:

- ✧ What was the reason for American crisis?
- ✧ How American financial crisis effected on China's economy?
- ✧ How do Shanghai people think about the effect of American financial crisis on their daily life?

1.3. Research method and strategy

This thesis applies a mixed- method approach to achieve the objectives of the study. The approach comprises a combination of qualitative and quantitative research methods in solving the research questions. The advantage of using mixed-method research is that the former is capable of providing profound insights into participants' interpretations of events and the latter can be used to quantify attitudes, behaviors, feelings that seem immeasurable (Marshall&Rossman2006,14).

The main framework is to analyze the questions by researching materials and looking up information from other documents in a qualitative way , and secondly, to obtain the information by doing the questionnaire survey. Simple random sampling was chosen as the method to obtain a sample representative of the study population. It involves selecting randomly from a population such that each subset has an equal chance of being sampled (Evans 2007,133), in this research, the demographic characteristics of the respondents were limited

to the local people of Shanghai. The main information was collected from the ordinary life and career of 125 Shanghai people (see the appendices 3) through the Internet in the quantitative way.

2. AMERICAN'S FINANCIAL CRISIS

2.1. Subprime mortgage happened

American stock market has been rising until 2005 (see figure 1). Since subprime mortgage in 2007, it is quite obvious that Dow Jones index began to decrease (see figure 2). From this, it can tell a fact that subprime mortgage had been gradually effected on stock market and lead to financial crisis finally. Firstly, let us analysis American situation of stock market in recent (2007) year, what happened in that year? (Source: <http://www.chinapcc.com.cn>)

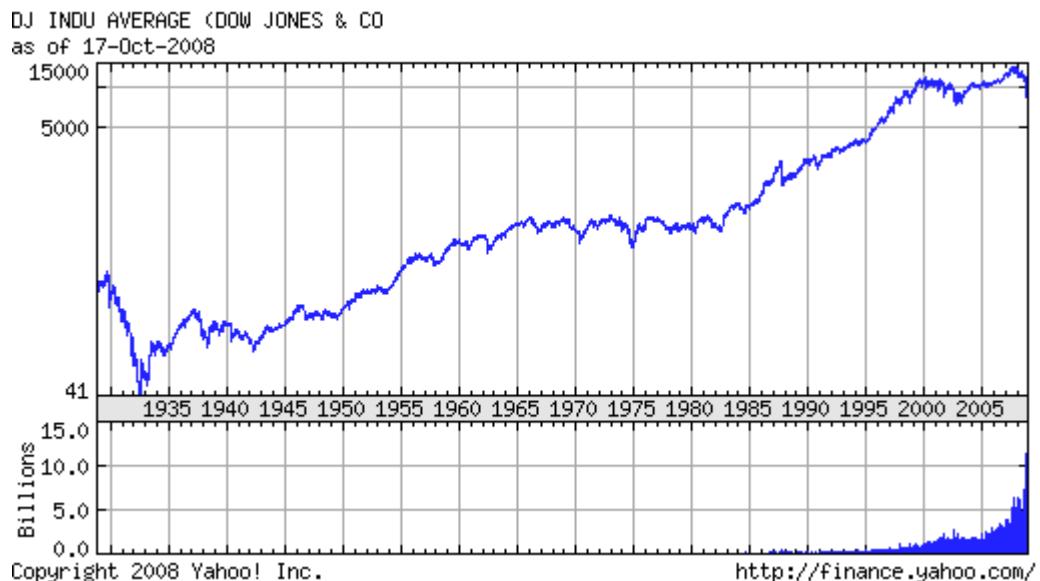


FIGURE 1- Dow jones index in the previous years



FIGURE 2- Dow jones index the line of the year

American stock market of 2007, Dow Jones index, consecutively broke through 13000 dot ,that showed the strong trend. At the same time Dow Jones index also encountered to fall hundreds of dots at the same day. From early of the year to end of the year, three stock markets of New York realized to move up in different degrees, thereinto, NASDAQ index increased most, which arrived up 11.46%, the Dow index and standard and Poor's composite index increased 7.92% and 4.66% respectively. While 2007 New York stock market also encountered the most fall since "9.11." February 27, New York stock market encountered "black Tuesday," the Dow index dropped 564 dots, finally still reached 416.02 dot. March 13, subprime mortgage first stoke American stock market (*Schroeder, March 29, 2007, the Wall journal*). At that day, the second subprime mortgage loan enterprise in America-new century finance company, which was close to bankruptcy, delisted by New York stock exchange, that leaded to drop 242.66 dots.

August 17 is a turn of New York stock market in the late half a year, at the same day, federal reserve declared to decrease 0.5% of the discount rate, so as that help to resume the steady of the financial market. Receiving this good news, the stock of New York had a big extent rebound, the Dow index increased 230 dots. However, since late of October New York stock had been decreased, specially financial stocks. (*Solomon, June 28,2007, wall street journal, New York*)

2.2. The explanations of the important concepts

2.2.1. What is bond? What kind of characters of bonds have?

Bond is, one kind of voucher of creditors' rights and liability, that government, financial institutions. etc. directly raise money from society, want to issue to the investors, promise to pay for the interests according to certain interest rate and return principal according to certain conditions. The essence of Bond is certificate of debt, which possesses the effectiveness of Law. The relationship, Between buyers and issuers of bonds, is the creditors' right and liabilities, issuers are namely liabilities and investors are namely creditors' rights. Bonds, as one kind of important of way of financing and financial tool, have some characteristics below:

- Reimbursement. Bonds always stipulate the date of reimbursement, issuers must reimburse principal and interests according to conditions of appointment.
- Circulation. Bonds can transform freedom in the current markets.

- Safety. Compared with stocks, bonds have always fixed interests and do not have relation directly with the enterprises' operation. Bonds usually income quite steadily, risk is lower. Besides, if enterprise is bankrupt, the holders of bands have the preferential rights of coming down on the rest of the capital compared with the holders of stocks.
- Profitability. The profitability of bonds mainly behaves in two aspects, 1. Bonds can bring stable or unstable benefits to investors; 2. Investors can make use of changing of bonds' price, buy and sell bonds so as to earn the margin.

2.2.2. What is Inter Bank Offered Rate(IBOR)?

This interest rate makes up of two parts, LIBOR+risk premium. LIBOR is London inter bank offered rate, that is a reference. Risk premium is an important concept in economics, simply, that is bearing the risk and charging the fees. That means LIBOR makes up of the lowest level (LIBOR, is the smallest risk level) plus the premium of the risk. LIBOR is the same for all of the banks, however, risk premium is different. For the bank of the higher risk, the lending bank charges higher risk premium. Meanwhile, for the bank of lower risk, charges lower risk premium.

2.2.3. What is subprime mortgage crisis?

Subprime mortgage loan, that loans to people, who do not have good credit, do not also have provement of income and the ability of return or else personal heavy debt. Compared with people with good credits, the interest rate of sub prime mortgage loan is higher. In other words, the possibility of returning the money is maybe impossible. Therefore, the bank asks for higher interest rate for the higher risk.

In order to take back the capital, the lending banks packed those loans and issue bonds to other banks, which are willing to invest in those bonds. At the same time, they can get higher profits.

Yet, the higher profits are based on the rising of price of America's real estate all the time. If the price of houses keeps on increasing. Even though the rate of breaching of those subprime mortgage loan is high, and the lending institutions can not get back those loans, they can also get back those houses, then sell those houses and earn money from those. Because of the real estate in US was hot, the prices of the houses kept on increasing.

Yet, since 2006, the price of the houses of America has begun to change, the price of the houses began to fall down. In general, the buyers of the houses were hard to sell the houses or obtained financing through mortgages. Even though the lending institutions also got back of the houses and sold them out, that still can not get back the loans. Therefore, the bonds they issued were not valuable at all and amounts of institutions had a huge deficit. For example, the second biggest subprime mortgage loans company---New Century Financial corp. declared to apply the protection of bankruptcy on the 2nd April 2007 when faced US\$ 17.4 billion liabilities from Wall Street. The 2nd August, German industrial bank declared the warning of profits, then estimated the Euro 8.2 billion to the bad, because the branch of this bank called hineland Funding, which owned capital of Euro 12.7 billion, took part in the business of American subprime mortgage loans, and leaded to huge loss.

(Source: <http://zhidao.baidu.com>)

2.3. The analysis of American financial crisis

Along with Lehman Brothers (see Appendix 2) applied to bankruptcy, Merrill Lynch (see Appendix 2) was purchased by Bank of America, AIG(American General) depends on government just can reluctantly maintain, Once before extremely arrogant magnets of Wall Street gradually dropped, and America's stock market also created the lowest recent years. Most people wondered: on earth who direct this storm of Crisis, On Earth who will take charge of current situation? (*Ben Power, 2008, Investment Banking-Mcquarie sweeps asides collapse in investor confidence, Asia money, London, Oct 2008*)

There are four main reasons lead to the storm of crisis.

2.3.1. Investors of excessive consumption

Normally this time of financial crisis, investors are the biggest victims. However, investors, the original of this financial "earthquake," are also hard to get rid of their responsibilities. Under the effect of overdraft culture of America, despite those people ,who do not have the investing ability, also have the impulsion to enter the investing market. Most of people think that they will be at a disadvantage situation if they do not buy houses, especially when they see everyone is earning money from real estate.

Everything is matched with each other. "If the subprime loan did not get the crazy chase from the investors, maybe it can not be like today. Just because the unlimited and outspread consumption and the eager of overdraft made the situation into the bad situation. America depended on the bubble of capital market to maintain the overdraft of consumers, so that the market was magnified without limit.

2.3.2. The financial practitioners of the greediness

Although Lehman Brothers' unemployment looks like quite sorehead, but maybe tomorrow they would hold many companies' offers, the packs of their plump waist may not be loss too much. Actually inspiriting mechanism of the financial people with ability of Wall Street existed unmatched problems of profits and risks, this is also one of the reasons for American financial crisis of this time.

Wall Street was in the name of financial innovation, and introduced various of financial products of high risks. Resulting in bigger and bigger bubble, it seemed that the practitioners of those financial products were punished, while actually it was not like that.

First, when they were still in the middle of the games, already had received huge profits, which are hundreds of times than the normal people. When the flourishing moment, actually they have already put the huge profits inside their own waist pack. Second, all over the world lack of financial talents, they just unemployed for few days, China 、Singapore at once recruited the talents of Wall Street. Therefore, they did not worry they can not find new chances.

2.3.3. The undemanding supervisions

In some extent, American loose management mechanism also leaded to this time of American financial crisis. The whole mechanism obviously can not catch with the speed of financial innovations.

Now the main supervised modes included supervision of Capital and Risk of supervision. While this time subprime mortgage crisis exposed out the problems. Even though the supervision of risks can not solve the problems too.

the reasons are those related to financial derivatives, which are out of control, lacked of enough information to check the problems. Therefore, the supervised sector can not discover problems immediately.

Those Wall Street people, who can really understand the old mechanism of supervision, speculated from it and got quite high income. So in my opinion, after the supervision of Capital and the supervision of Risks, the mode of supervision should rise to the supervision of people, this is essential.

2.3.4. Docile and obedient Asian countries

When we talk about the responsibility, actually if Asian countries can govern their financial market rightly, and driven the domestic needs, if Asian countries do not have to export too much and can not supply too much fluidity, how did American created so many financial innovations?

Just about, the traditional economic growth mode of Asian countries, that gave America unlimited motivation. So it leaded to loose currency policy and transport fluidity in America. Thereby, America had enough fluidity to magnify the deal of lever, sequentially leaded to severe unbalance of global economy.

3. AMERICAN FINANCIAL CRISIS EFFECTED ON CHINA'S ECONOMY.

Since from America's subprime mortgage, to the crisis of Fannie Mae and Freddie Mac, and to Lehman Brothers bankrupted、Merrill Lynch was ac Economic development outside western world since 1950 has largely been based on copying what the United States did in World War.(Peter F. Deucker,*2001, Management Challenges for the 21st Century(140)*, New York), global economy based on this kind of economic situation, it is easier to make the conclusion that economic development in the world is similar, from the macro point of view, even China, the biggest developing country, therefore the whole earth is easier effected by United States, even China. Next, let us talk about more details about American financial crisis effect on China.

America's biggest insurance company AIG, which was immited capital of US \$85 Billion, was also on the edge of bankruptcy、Global stocks markets sostenuto go down, all of those indicated that the coldest winter of Wall Street have not come, Federal Reserve ex-president Alan Green Span deemed that America is involving in "a century one time" financial crisis. In global economic and finance incorporate today, we must carefully analyze the impact of America's crisis to China's economy、RMB (China's Currency)、financial institutions and carry out pertinent measures, in order to avoid bigger loss. I think, the impacts as below:

3.1. The influence of \$ U.S. depreciation

Currency, as the most important role in the global economy, is almost the center of global economy. Almost every transaction needs currencies to finish, everywhere is relative to currency. I will use the quantitative way to analyze US dollars depreciation to the affect of China's currency.

3.1.1. Prices and Exchange rates

To understand how prices are related to the fluctuation of exchange rate, I first need to discuss economic proposition known as the law of one price. Then I will discuss the theory of purchasing power parity (PPP), which links changes in the exchange rate between two countries' currencies to changes in the countries' price levels. I would choose US and China to analyze the changes between exchange rate and prices rate. (*Charles.W.L.Hill ,2004, Global business today (295), New York*).

3.1.2. The law of one price

The *Law of one price* states that the competitive markets free of transportation costs and barriers to trade (such as tariffs), identical products sold in different countries must sell for the same price when their price is expressed in terms of the same currency. (P295) For example, if the exchange rate between China's RMB and the US dollar is $\text{¥}1=\$0.08$, a jacket that retails for \$75 in New York should sell for ¥937.5 (since $\$75/0.08=\text{¥}937.5$). Consider what would happen if the jackets cost ¥500 in Peking (\$40 in U.S. currency). At this price, it would pay a trader to buy jackets in Peking and sell them in New York, this company could initially make a profit of \$35 on each jacket by purchasing it for ¥500 (\$40) in Peking and selling it for \$75 in New York (we are assuming away transportation costs and trade barriers) However, the increasing demand for jackets in New York would raise their price in Peking,

and the increased supply of jackets in New York would lower their price there. This would continue until prices were equalized. Thus, when the jacket cost ¥825 (\$66) in Peking and \$66 in New York (assuming no change in the exchange rate of ¥1=\$ 0.08).

If the law of one price were true for all goods and services, the purchasing power parity(PPP) could be found from any individual set of prices. By comparing the prices of identical products in different currencies, it would be possible to determine the “real” or PPP exchange rate that would exist if markets were efficient. (An *efficient market* has no impediments to the free flow of goods and services, such as trade barriers) A less extreme version to the PPP theory states that give relatively *efficient markets*- that is, markets in which few impediments to international trade exist- the price of a “basket of goods” should be roughly equivalent in each country. To express the PPP theory in symbols, let $P\$$ be the U.S. dollar price of a basket of particular goods and $P¥$ be the price of the same basket of goods in Chinese Yuan. The PPP predicts that the Dollar/Yuan exchange rate, E/¥$, should be equivalent to:

$$E$/¥ = P$/P¥$$

Thus, if a basket of good costs \$200 in the United States and ¥2500 in China, PPP theory predicts that the Dollar/Yuan exchange rate should be \$200 ¥2500 or \$ 0.08 per Yuan (i.e. \$ 1= ¥100).

Every year, the news magazine *The Economist* publishes its own version of the PPP theorem, which it refers to as the “Big Mac Index”. *The Economist* has selected MC-Donald’s “Big Mac Index” as a proxy for a “basket of goods” because it is produced according to more or less the same recipe in about 120 countries. The Big Mac PPP is the exchange rate that would leave hamburgers

costing the same in each country. According to *The Economist*, comparing a country's actual exchange rate with the one predicted by the PPP theorem based on relative prices of Big Macs is a test on whether a currency is undervalued or not. This is not a totally serious exercise, as *The Economist* admits, but it does illustrate the PPP theorem. (*Charles.W.L.Hill ,2004, Global business today(296), New York*) I would like to test the relationship between Yuan (China's Currency) and \$ US so as to further analysis Yuan in Crisis time.

In the Big Mac index (see table 3), the first column of the table shows local currency prices of a Big Mac; the second converts them into dollars. The average price of a Big Mac in the United States is 3.57; in China it is Yuan 12.5 or \$1.83 at July 24, 2008, exchange rate. The third column shows the PPP exchange rate implied by these different prices. Thus, the PPP exchange rate for the dollar and Yuan implied by comparing the prices for Big Macs in China and United States is $\$1 = \text{¥}3.5$. Column four gives the actual exchange rate on July 24 2008 ($\$1 = \text{¥}6.83$). Column five compares this to the exchange rate predicted by PPP. This tells us that the Chinese Yuan is 49% undervalued against the dollar and \$ U.S. is overvalued and should depreciate in value.

In reality, the \$U.S. dollar has Already begun to depreciate since 2002 until now. in April 27, 2002, the exchange rate is $1\$ = \text{¥}8.28$, but in July 24 2008 (*Charles.W.L.Hill, 2004, Global business today(297), New York*), the exchange rate has already decreased to $\$1 = \text{¥}6.83$, which implies that \$ U.S has already depreciated dramatically. (*July 24,2008, The economist, London*)

Therefore, \$ U.S depreciation has already affected on China's economy, especially in this special time- crisis. There are basically three negative influences as below:

- \$ U.S depreciation does not apt to optimize the structure of exchange rate of RMB(China's Currency).
- \$ U.S depreciation probably resists effect of policies of China's currency.
- \$ U.S depreciation makes a disadvantage to the regional organization of capital price of China.

In sum, \$ U.S depreciation is outputting financial risks forth, China should pay more attention to \$ U.S depreciation. (Source: www.cnfol.com)

The McCurrency menu						
The hamburger standard						
	Big Mac prices		Implied PPP† of the dollar	actual exchange rate	Under (-)/ over (+) valuation against dollar	
	In local currency	in dollars*				
United States‡	\$3.57	3.57	—	—		
Argentina	Peso 11.0	3.64	3.08	3.02	+2	
Australia	A\$3.45	3.36	0.97	1.03	-6	
Brazil	Real 7.50	4.73	2.10	1.58	+33	
Britain	£2.29	4.57	1.56§	2.00	+28	
Canada	C\$4.09	4.08	1.15	1.00	+14	
Chile	Peso 1,550	3.13	434	494	-12	
China	Yuan 12.5	1.83	3.50	6.83	-49	
Czech Republic	Koruna 66.1	4.56	18.5	14.5	+28	
Denmark	DK28.0	5.95	7.84	4.70	+67	
Egypt	Pound 13.0	2.45	3.64	5.31	-31	
Euro Area**	€3.37	5.34	1.06††	1.59	+50	
Hong Kong	HK\$13.3	1.71	3.73	7.80	-52	
Hungary	Forint 670	4.64	187.7	144.3	+30	
Indonesia	Rupiah 18,700	2.04	5,238	9,152	-43	
Japan	Yen 280	2.62	78.4	106.8	-27	
Malaysia	Ringgit 5.50	1.70	1.54	3.2	-52	
Mexico	Peso 32.0	3.15	8.96	10.2	-12	
New Zealand	NZ\$4.90	3.72	1.37	1.32	+4	
Norway	Kroner 40.0	7.88	11.2	5.08	+121	
Poland	Zloty 7.00	3.45	1.96	2.03	-3	
Russia	Rouble 59.0	2.54	16.5	23.2	-29	
Saudi Arabia	Riyal 10.0	2.67	2.80	3.75	-25	
Singapore	S\$3.95	2.92	1.11	1.35	-18	
South Africa	Rand 16.9	2.24	4.75	7.56	-37	
South Korea	Won 3,200	3.14	896	1,018	-12	
Sweden	SKr38.0	6.37	10.6	5.96	+79	
Switzerland	SFr6.50	6.36	1.82	1.02	+78	
Taiwan	NT\$75.0	2.47	21.0	30.4	-31	
Thailand	Baht 62.0	1.86	17.4	33.4	-48	
Turkey	lire 5.15	4.32	1.44	1.19	+21	
UAE	Dirhams 10.00	2.72	2.80	3.67	-24	
Colombia	Peso 7,000	3.89	1,960	1,798	+9	
Costa Rica	Colones 1,800	3.27	504	551	-8	
Estonia	Kroon 32.0	3.22	8.96	9.93	-10	
Iceland	Kronur 469	5.97	131	78.6	+67	
Latvia	Lats 1.55	3.50	0.43	0.44	-2	
Lithuania	Litas 6.90	3.17	1.93	2.18	-11	
Pakistan	Rupee 140	1.97	39.2	70.9	-45	
Peru	New Sol 9.50	3.20	2.66	2.9	-10	
Philippines	Peso 87.0	1.96	24.4	44.5	-45	
Slovakia	Koruna 77.0	4.03	21.6	19.1	+13	
Sri Lanka	Rupee 210	1.89	58.8	111	-47	
Ukraine	Hryvnia 11.0	2.19	3.08	5.03	-39	
Uruguay	Peso 61.0	2.55	17.1	23.9	-29	

*At current exchange rates
 †Purchasing-power parity; local price divided by price in the United States
 ‡Average of New York, Chicago, Atlanta and San Francisco §Dollars per pound
 **Weighted average of prices in euro area ††Dollars per euro

Sources: McDonald's; *The Economist*

TABLE 1. The McCurrency menu

3.2. The speed of the rising of China's economy.

For China quite depends on the export to the industrial regions or countries, such as US or EU. Now those areas began to ask less import from China, which naturally leads to less export than ever before in China, and quite a number of Chinese enterprises are facing bankruptcy.

GDP and Export Volume of China (US\$ billions)

	2001	2002	2003	2004	2005	2006
GDP	1,196	1,300	1,414	1,932	2,229	2,677
Exports	266.1	325.6	438.2	593.3	762.0	969.1

Source: China Statistical Yearbook, various years.

Table 2. GDP and Export Volume of China

China's Top Trade Partners in 2006 (US\$ billions)

Rank	Country	Total trade	% Total trade	% GDP
1	European Union	272	15.5	10.2
2	United States	263	14.9	9.8
3	Japan	207	11.8	7.7
4	Hong Kong	166	9.4	6.2
5	ASEAN	161	9.1	6.0
6	South Korea	134	7.6	5.0
7	Taiwan	108	6.1	4.0
8	Russia	33	1.9	1.2
9	Australia	33	1.9	1.2
10	India	25	1.4	0.9

Sources: <http://zhs.mofcom.gov.cn/aarticle/Nocategory/200702/20070204344141.html>
and <http://zhs.mofcom.gov.cn/tongji.shtml>.

Table 3. China's top trade partners in 2006

This table(see table 1) shows that the rate of export gradually became higher and higher. Export: GDP= 13.3 % (around) in 2001, but in 2006, this rate arrived to 36.2 % (see table 1), which indicates that export possesses an important position in China's economy

EU and US(see table 2) are the main import regions for China. now the financial crisis came from US also directly affects Europe, it will unavoidable reduce import in EU and US from China, thus, which will lead to the slowdown of China's economy.

Basically, this year and also next year, China will slow down the speed of economic rise, which is already a tread now. Based on the report published by Asian Development Bank this year on 16th Sept 2008 *Asian development expectation renew*, the speed of China's economic development will slow down to 10% in 2008, compared with 11.9% of 2007; in 2009, the economy of China will slow down even more to 9.5%. the main reasons as below:

- 1) Because of the speed of American economic increase is slowing down, and the decreasing speed of China's export is underestimated.
- 2) The rate of inflation has the rising trend, which makes government carry out more severe policies of constrictive currency, the rising speed of investing asset capital slowed down, the trend of the bankruptcies of enterprises is emerging, the rising of industrial profits is deceasing in a big scope.
- 3) Under credit loans contraction condition, the market of real estate falls largely, maybe it will emerge more serious crises in the future than 2008.
- 4) Under macro control, the rising speed of investment of real estate、steels 、cement and motor industry are gradually declining.
- 5) The creation of 10 million new job positions of each year is hard to realize. Farmers who work in cities are going to back to countryside, so the

countryside forms recessive a great deal of unemployment.

- 6) Next year, the prices of petroleum and electricity may farther rise, which will keep PPI (Producer Price Indexes) increasing. In China 2008, the rising scope of CPI (Customer Price Indexes) forecasted value from previous 5.5% increases to 7%. The forecasted value of 2009 went up to 5.5% from April 2008.
- 7) The rising speed of citizens' consumption will go down, and it is impossible that we just depend on consumption to draw the increase of economy. The instability of income augments、the gap of the income of the city and town citizens further increases. Etc, which limited the eager of consumption of citizens.

3.3. The policy of the People's Bank of China (the central bank of China) has been trapped in “dilemma”.

Currently, during “keep increasing” and “control inflation”, the policy of the central bank is in “dilemma”. Under the shadow of global crisis, the economic growth of China will be limited, it is inevitable that the growth rate will slow down, however, under the high growth rate of the past continuous 10 years , “Urgent brake” which may lead to bankruptcy of huge amount of enterprises and high unemployment, and further influence on the stability and harmony of society. Whereas, loosening the policy of currency will lead to more serious problems of PPI and CPI, that is already in a dangerous situation. In the 15th of this month, it is a good prove that two rates got down, but it did not lead to a good result as we expected before. Likewise, it is a dilemma to choose if RMB(China's currency) should rise or go down against US dollar.

3.4. The operation benefits in the bank industry of China

The main reasons:

- Under the condition of glide of economy, the space of development of banks is becoming narrower.
- Under inability increase of citizens' income and the contraction of currency, deposits rose rapidly and loads' quantity decreased rapidly, which engendered dominant conflict, and plus loan benchmark interest rate moved down 0.27%;
- The glide of economic brought to bankruptcies of many industries, which also leads to lots of bad loads from those bankruptcies.
- After cracking of capital bubbles, mortgage of banks shrank in a gross, banks' mortgage rate exceeds "alert line", and loss the profits of the second returned loans. Such as, real state mortgage、land mortgage and stocks mortgage are the most dominant ones;
- Engendering from American subprime mortgage. For example, the main banks of China lost more or less from the bankruptcies of the investment Banks of America.
- The overseas acquisition and investment of the commercial and industrial. Bank of China aggravated their loss in this Crisis. And also as forecast, in 2009, from HK H stock, the profits of the banks of China decreased 4% - 8%, smaller scale of the banks even go down 8%-13%.

3.5. The rescued market behavior of the central bank of every country

Just recently, with the head of Federal reserve, global central banks and local supervised departments all carried out measures, firstly, Federal Reserve decided to immit capital US dollar 700 billion into market and can rescue the American soft market. After America, EU 、England、Japan、Australia and Switzerland .etc lots of national central banks also continuously carried out immiting measures. In Asia, both Mainland China and Taiwan declared the rate of load prepared capital or the interest rate of load.

However, it seems that the endeavor of each country did not receive the expected benefits, Dow Jones Indexes 、 Standard & Poor's 500-stock indexes 、 NASDAQ Indexes 、 European stocks markets 、 London stocks market all of them cannot avoid dropping down, and Hu and Shen A stocks (China's Main stock exchange) are also involving in hot water. After the confidence of investors dropped into the end, any measure of rescuing market is under the pressure, and became "green landscape" of "a flash in the pan".

3.6. The real winter of the real estate

Beijing revealed that industrial growth during October has hit a seven-year low. It said industrial production grew 8.2% in the month, compared with an 11.4% rise just a month earlier. Steel production dropped 17% year-on-year. (1st November 2008, *Asiamoney magazine, London*)

The information above implies that American crisis already began affect on China. During the trend of glide of economy, due to global financial crisis, the "real winter" of China's real estate and the risks of Banks' ill loan will come at end of 2008 and the first half a year of 2009. The becoming quantities of deals increasingly drops、the confidences of buyers are weakened and they will hold the money and look forward what will happen、empty houses will continuously rise and gross profit rate decreases, which will lead to lack of

cash for developers, furthermore, the real estate of industries of banks will burden bigger risks.

Depending on Goldman Sachs from the analysis of the record, banks provided loans to 65 enterprises of real estate, can forecast that the cash of developers are not enough. Since last year the adjustment of real estate, the phenomenon actually already was exposed; whereas, developers still attract capital from domestic and overseas investors in the condition of high interest. In order to attract capital, domestic star real estate WANKE and HENGDA .etc all tried to completely lower sales prices, obviously we can see that the price of houses already trapped into the trend of getting down, especially Shenzhen, Guangzhou and Huizhou. And the government of China denoted that in August (2008) the house prices of 70 cities which were tracked, the first time emerged lower price, that compared with last month. Shanghai area also dropped 0.2%. Currently, it is increasingly ubiquitous that the price of houses dropped down around the whole China, the investment of Real Estate is further shrinking.

Moreover, once Morgan Stanley eagerly invested in Shanghai Real Estate, but today it is eager to close out the most top luxury flats. Besides, Morgan Stanley were interested in buying the highest building in Shanghai—Shanghai global financial center, but recently gave up. Combined with American financial crisis, Morgan Stanley was preparing for potential crisis of fluidity, it may also indicate that part of foreign capital was beginning to prepare to evacuate the market of Real Estate of China, this will result in one new disaster for the market of Real Estate of China--- firstly, developers will face with the crisis of solvency, and then the developers of low strength will face with bankruptcies, and further will effect on domestic banks.

4. THE SURVEY OF SHANGHAI PEOPLE

I made a questionnaire, which include 8 questions. One of them is the basic information from people , the left of the 7 questions are the main questions. The questionnaire was conducted in the end of November and the beginning of December in 2008. The information of this questionnaire was collected by my friend, who studies in FuDan University (in Shanghai). She sent this questionnaire to 125 different people in the business street of Shanghai, I assume that the respondents' honesty did not suffer greatly when filling the questionnaire. The asked questions are not really personal questions and they do not give a particular reason for the respondent to be dishonest.

The drawing of the conclusions based on sample for the whole population turned out to be difficult. Therefore, I use SPSS to analyze the questionnaire between age, salary, education and the main questions. The result of each question is applicable.

4.1. The basic information from the questionnaire

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 18	15	10,1	12,0	12,0
	18-25	54	36,2	43,2	55,2
	26-40	33	22,1	26,4	81,6
	above 41	23	15,4	18,4	100,0
	Total	125	83,9	100,0	
Missing	System	24	16,1		
	Total	149	100,0		

Table 4. Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less 1000 RMB	15	10,1	12,0	12,0
	1001-2000 RMB	25	16,8	20,0	32,0
	2001-4000RMB	34	22,8	27,2	59,2
	4001-6000RMB	26	17,4	20,8	80,0
	6001-10000RMB	12	8,1	9,6	89,6
	10001-20000RMB	9	6,0	7,2	96,8
	above 20001	4	2,7	3,2	100,0
	Total	125	83,9	100,0	
Missing	System	24	16,1		
Total		149	100,0		

Table 5. Salary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	secondary	5	3,4	4,0	4,0
	high school	16	10,7	12,8	16,8
	undergraduate	99	66,4	79,2	96,0
	graduate	5	3,4	4,0	100,0
	Total	125	83,9	100,0	
	System	24	16,1		
Total		149	100,0		

Table 6. Education

4.2. Comparing

4.2.1. Question One

	Does the crisis effect on your job?			Total
	yes	no	I do not know yet	
What is your age?				
less than 18	5	10	0	15
18-25	27	24	3	54
26-40	20	13	0	33
above 41	13	10	0	23
Total	65	57	3	125

Table7. Effect of the job

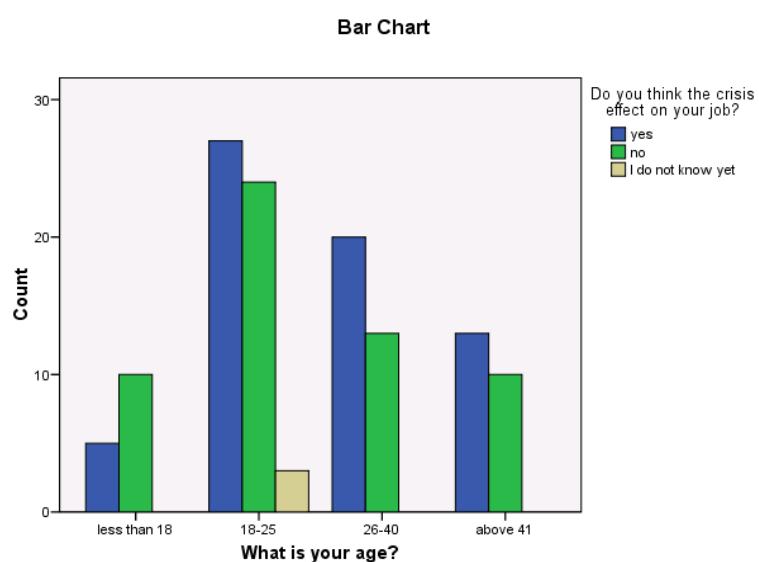


FIGURE 3. Effect of the job

From the table and chart, 65 out of 125 answered “yes”, it exceeds half of the population of the sample. This states that it did effect on their job, to some extent. Especially, after 18 years old, most of them already have jobs, who responded “yes” more than “no”.

4.2.2. Question Two

		Does the crisis effect on your income?		Total
		yes	no	yes
What is your salary?				
less 1000 RMB		2	13	15
1001-2000 RMB		6	19	25
2001-4000RMB		8	26	34
4001-6000RMB		3	23	26
6001-10000RMB		3	9	12
10001-20000RMB		1	8	9
above 20001		1	3	4
Total		24	101	125

Table 8. Effect of income

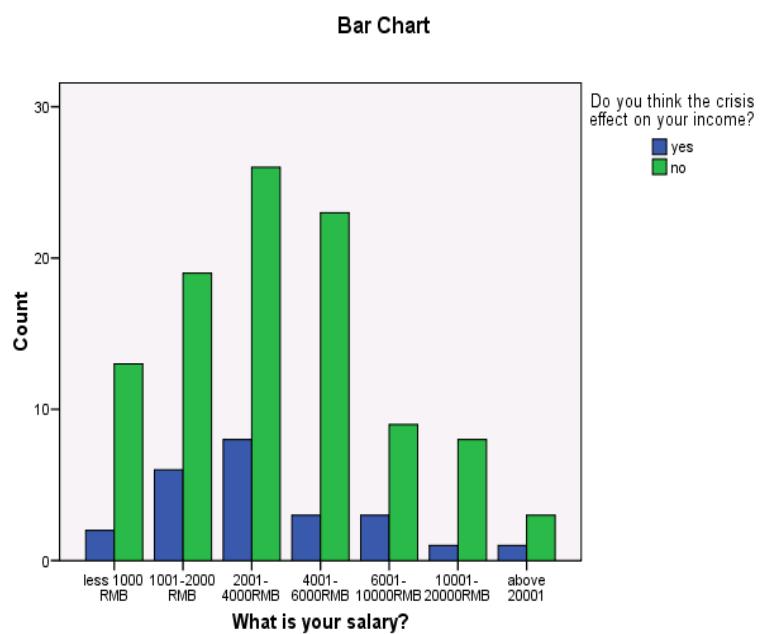


FIGURE 4. Effect of income

Even though, American crisis effect on their job, but from the table, 101 people answered “no”, it shows that it does not effect on much of their salaries. But still one out of five was affected by the crisis. For example, trade companies decreased the salaries of employees or fired their employees when other counties declined exports or imports.

4.2.3. Question Three

	Do you afraid of American crisis?			Total
	yes	no	I do not have feeling	
What is your age?				
less than 18	2	11	2	15
18-25	19	27	8	54
26-40	13	14	6	33
above 41	11	8	4	23
Total	45	60	20	125

Table 9. The perception of American crisis

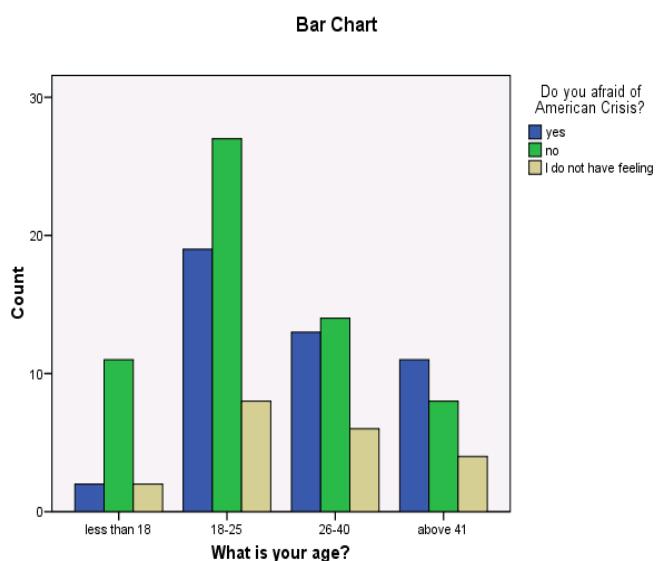


FIGURE 5. The perception of American crisis

45 people answered “yes”, 60 people answered “no” and 20 people answered “I do not have feeling”. Until now, more than 1 out of 3 people already said that they are afraid of American crisis; it indicated that American crisis did begin to

influence the life of Shanghai people and people already have started to feel the influence.

4.2.4. Question Four

	Do China already have changes since American Crisis?			Total
	yes	no	I do not have feeling	
What is your secondary education?				
high school	3	2	0	5
undergraduate	13	3	0	16
graduate	73	18	8	99
Total	1	3	1	5
	90	26	9	125

Table 10. Changes of China

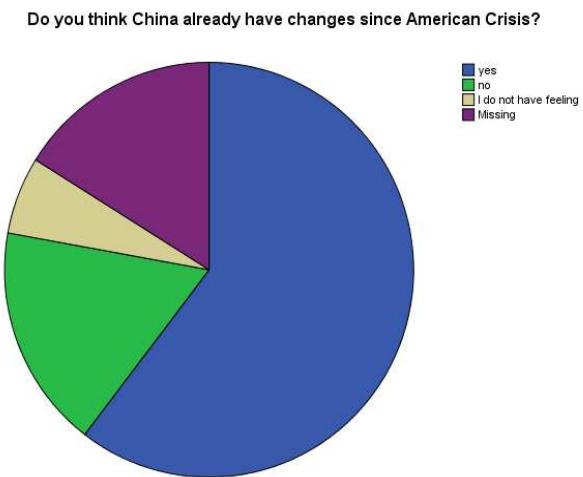


FIGURE 6. Changes of China

From the table and the pie chart, we can analysis easily that 90 people, more than 70% population of the sample think that China already has changes since American Crisis. It showed that American Crisis is gradually effect on economic of China.

4.2.5. Question Five

	Have the crisis already effected on your current company?			Total
	yes	no	I do not know	
What is less than 18 your age?	5	7	3	15
18-25	19	20	15	54
26-40	11	16	6	33
above 41	10	11	2	23
Total	45	54	26	125

Table 11. Effect of the current company

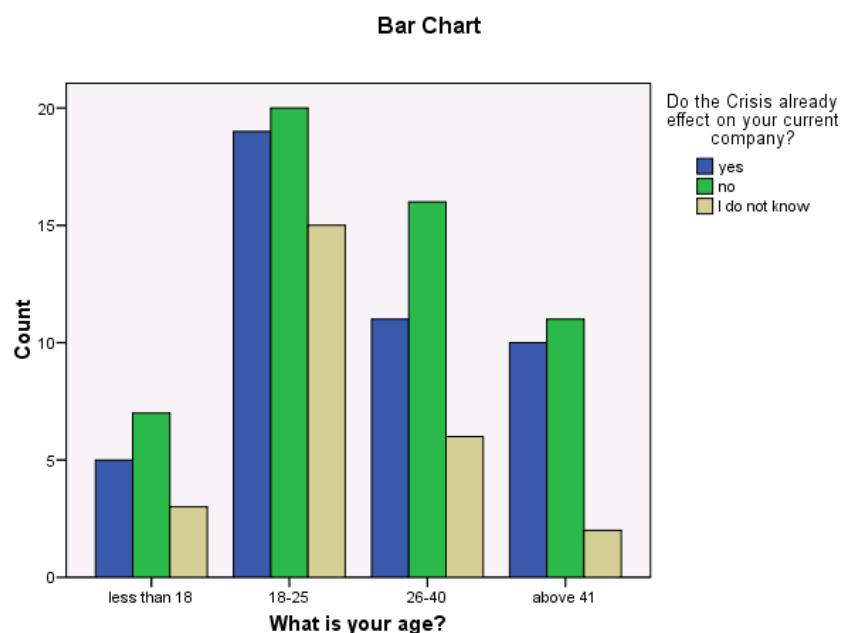


Figure 7. Effect of the current company

Almost one out of three population of this sample said that American crisis already affect their current company.

4.2.6. Question Six

		Do you think the American crisis effect on stock market much?			Total
		yes	no	I do not know	
What is your salary?	less 1000 RMB	12	2	1	15
	1001-2000 RMB	22	0	3	25
	2001-4000RMB	30	3	1	34
	4001-6000RMB	23	3	0	26
	6001-10000RMB	6	4	2	12
	10001-20000RMB	6	2	1	9
	above 20001	3	0	1	4
Total		102	14	9	125

Table 12. Effect of stock market

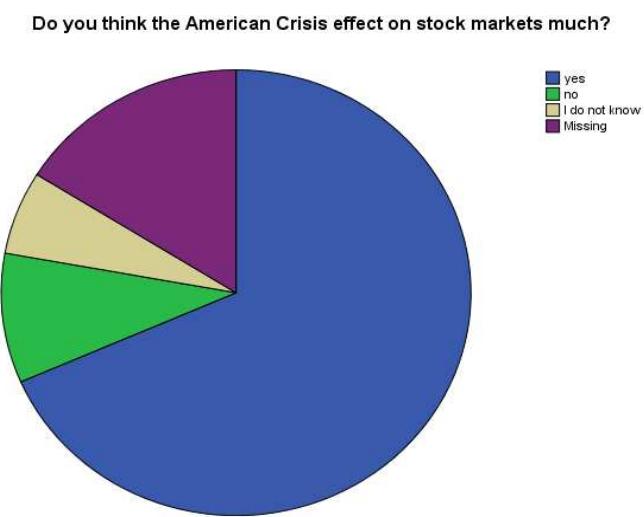


Figure 8. Effect of stock market

It is obvious that American Stock market affects on China's stock market quite much, even all over the world. Normally, if American Stock market fluctuated frequently, China's stock market must fluctuate frequently, the main reason is China's economic too depend on American economic, from this table and pie chart, it easily analysis that most of the people think China's stock market already was affected by American crisis.

4.2.7. Question Seven

		Do China should still learn the management model from American financial institutions?			Total
		yes	no	I do not know	yes
What is your education?	secondary	2	2	1	5
	high school	3	13	0	16
	undergraduate	12	70	17	99
	graduate	1	1	3	5
Total		18	86	21	125

Table 13. The learning of financial management

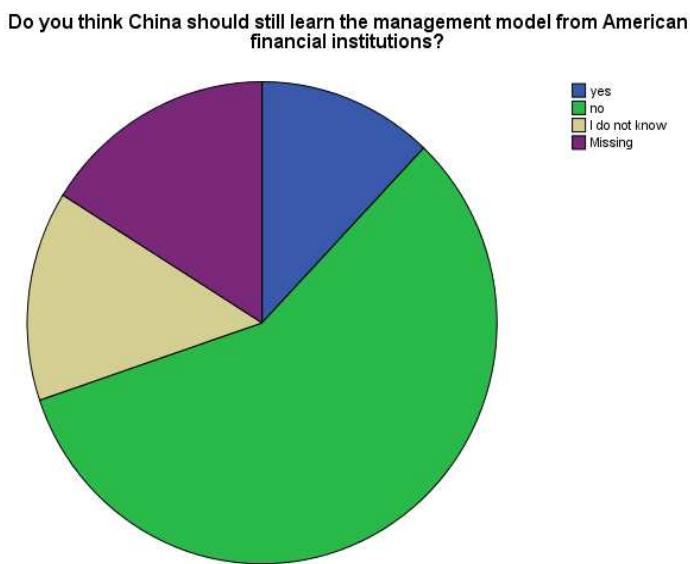


FIGURE 9. The learning of financial management

From this information above, I can analysis that more people oppose China continue to learn the management model from American financial institutions. The truth proved that current American financial systems exist quite many problems. Therefore, China faced huge challenges in creativities and innovations. China can not continue copy American financial systems directly like before.

4.2.8. Question Eight

		Do you still think that China's economy still can keep a high increasing rate?			Total
		yes	no	I do not know	yes
What is your education?	secondary	0	4	1	5
	high school	1	11	4	16
	undergraduate	12	71	16	99
	graduate	1	3	1	5
Total		14	89	22	125

Table 14. The speed of China's economy

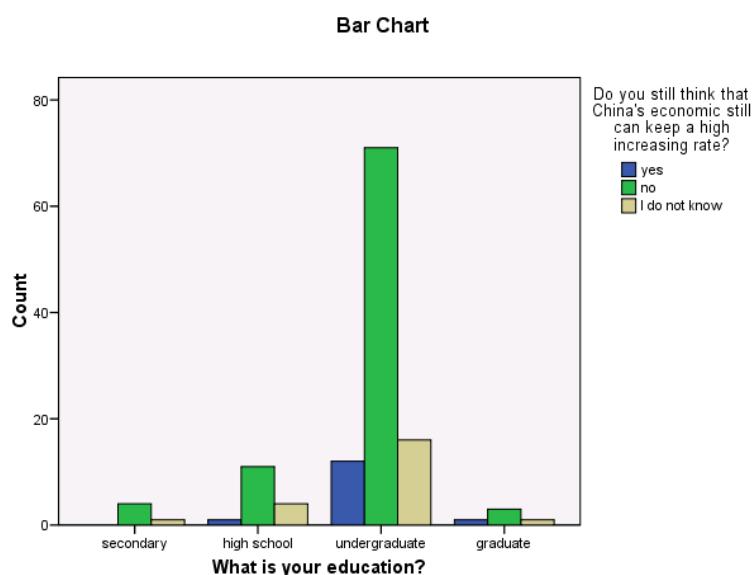


FIGURE 10. The speed of China's economy

89 out of 125 answered “no”, it indicated that quite many Chinese people do not believe China still can keep a high speed development like before, such as 11%. I also checked some other documents, many materials think china will keep GDP in 7-8%, it is impossible to increase like 11%.

5. CONCLUSION

All the responses collected from the survey adequate to address all three objectives laid out in this research. The purpose of this study was to show that the background of American financial crisis, American financial crisis effected on China's economy and how it effected on the life of Shanghai people. Based on the background of American financial crisis and the economy of China, I designed 8 questions in the questionnaire for Shanghai people. The above findings suggest that American financial crisis do effect on the life of Shanghai people in 2007-2008 in various aspects.

The first research question was to understand how to lead to American financial crisis. Since the most frequently repeated responses to this question was "subprime mortgage". Therefore it would be reliable and safe to say that, subprime mortgage loan of America contributed mostly to this crisis. However, in the later time of this crisis, it was discovered that American financial crisis already have became the global economic crisis. Undoubtedly, it threatens heavily to the developed countries. Whenas it also impacts the developing countries and declines the speeds of their development.

According to the analysis of the second research question, China's economy was effected by global economic crisis. In general, the top four most important factors in order are: less export, US dollar depreciation and stagnancy of financial and real estate industries.

The last research question was divided into 8 sub-research questions. The first one (4.2.1) was to investigate the crisis effected on Shanghai people's jobs. Normally careers are one of the most important element in the view of

economy. Therefore, This is a direct and significant question. Obviously, the results of the table and chart show that half of the samples responded “ yes”. According to the analysis of the second question (4.2.2), this time of the crisis did not effect too much of the salaries of Shanghai people. But this result does not influence the purpose of this study too much, because salary is not the main element during the period of the crisis time. In the study of third and fourth(4.2.3,4.2.4) questions, the responses of the questions suggest that People from Shanghai already have been afraid of this crisis and more than half people agreed that China already have changed since American financial crisis, for example less export, higher unemployment, etc. The answers of the fifth(4.2.5) question implied that less than half sample agreed with their current company effected by the crisis. The sixth one is also a crucial question, because it is relative to the stock. In Shanghai, a great deal of people involved in stocks from young to old. Usually many people hold different companies of stock. Therefore, the trend of the stocks can affect the life of Shanghai people. According to the result of the sixth (4.2.6) one, additionally, the highest percentage, it indicates that Shanghai exchange market was influenced by American financial crisis. In respect that China previously learn the model of American financial institutions, which proved that it exists amounts of problems. In the study of seventh, 68.8% people from the sample opposed. And 71.2% people lost confident in keeping high increasing speed of economy of China.

In light of the above findings, American financial crisis, inevitably, effected on the life of Shanghai people. The “negative” responses of the high percentage give the strongest persuasion. Most importantly, the jobs and stocks, that are the most important to Shanghai people, have the most “negative responses, respectively 52% and 71.2%. As noted above, the life of Shanghai people had been changed.

In light of the above findings, organizations or government can develop some policies that decrease the changes of the life of Shanghai people. Some policies include aiding local enterprises, keeping current salary, avoiding unemployment and not adding more responsibilities to their workload. Most importantly, the reformation of the global economy, emphasizes on fostering long term development, should carry out quickly again. Because short term policies by a city may lead to fail.

To conclude, the theoretical and research study have provided sufficient information to prove the purpose of the study of this thesis—American financial crisis effected on the life of Shanghai people in 2007-2008. As it was stated before, the results findings may not generalized to all other cities of China. Besides, the sample population of 125 is considered to be small as compared to the total number of people in Shanghai. However, the results may be used as a guide for the lives of the other cities in China under the situation of American financial crisis or for establishment of new policies of Shanghai. Lastly, even though now American financial crisis already have became global economic crisis, recommendations for further research can be done, for example, global economic crisis effects on China's economy through figuring out the crisis effects on the typical cities in China.

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APPENDICES

Appendix 1:The main banks in China

1. Bank of China
2. (China) Construction Bank
3. Industrial and Commercial Bank of China
4. Agricultural Bank of China
- 5 Bank of Communications (China)
6. China Merchants Bank

Appendix 2: The famous investment banks in US

- ✧ Lehman Brothers
 - ✧ Merrill Lynch
 - ✧ Morgan Stanley
 - ✧ Goldman, Sachs & Co.
 - ✧ Citigroup/Salomon Smith Barney
-
- ✧ Bear, Stearns & Co.
 - ✧ Deutsche Bank Securities
 - ✧ USB Warburg
 - ✧ Prudential Securities
 - ✧ J.P. Morgan Securities
 - ✧ Bank of America Securities
 - ✧ Sanford C. Bernstein & Co.
 - ✧ International Strategy & Investment Group
 - ✧ SG Cowen
 - ✧ Credit Suisse First Boston

Appendix 3: The local stock exchanges of China are:

Shang hai

Shen zhen

Appendix 4 : Survey questionnaire

a) What is your age?

A. Less than 18 B. 18-25 C. 26-40 D. Above 41

b) What is your income per month?

A. Less 1000 RMB B. 1001-2000 RMB C. 2001-4000 RMB D. 4001-6000 RMB
E. 6001-10000RMB F. 10001-20000RMB G above 20001 RMB (EURO:RMB=1:10 AROUND)

c) What is your education?

A. Primary school B. Secondary school C. High School D. Undergraduate E. Graduate

d) Do you think the crisis effect on your job (for example, unemployment)?

A. Yes B. No C. I do not know yet

e) Do you think the crisis effect on your income?

A. Yes B. No C. I do not know yet

f) Are you afraid of American financial Crisis?

A. Yes B. No C. I do not know yet

g) Would you be more careful to financial problems in your future life?

A. Yes B. No

h) Do you think China already has had changes since American Financial Crisis?

- A. Yes B. No C. hard to say
- i) Has the financial crisis already effected on your current company?
- A. Yes B. No C. Hard to say
- j) Do you think the American financial crisis has effected on China very much in general?
- A. Yes B. No C. I do not know
- k) Do you think the American Crisis has effected on China's stock markets much?
- A. Yes B. No C. I do not know
- l) Do you think China should still duplicate the management model from American financial institutions?
- A. Yes B. No C. I do not know
- m) Do you think that China's economy will still keep a high increasing rate?
- A. Yes B. No C. I do not know

Appendix 5: the four banks of China

Bank of China (BOC)

Agricultural Bank of China (ABC)

Industrial and Commercial Bank of China (ICBC)

China Construction Bank (CCB)

(collectively, the Big Four)