

Trends and Issues in Finance

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WHAT'S COVERED

In this lesson, you will learn about recent trends in finance. Specifically, this lesson will cover:

1. Financial Crisis and Regulation

The financial crisis of 2007–2008 caused the near-total collapse of many large financial institutions, the **bailout** of **banks** by national governments, and downturns in stock markets around the world. The financial institution crisis hit its peak in late 2008. Several major institutions failed, were acquired under duress, or were subject to government takeover, including Lehman Brothers, Citigroup, Fannie Mae, and Freddie Mac, among several others.

The crisis rapidly developed and spread into global economic shock, resulting in a number of European bank failures, an economic crisis in Iceland, declines in various stock indexes, and large reductions in the market value of equities and commodities. A currency crisis followed, with investors transferring vast capital resources into stronger currencies.

In many areas in the United States, the housing market also suffered, resulting in significant numbers of foreclosures. The crisis played a significant role in the failure of key businesses, declines in consumer wealth, prolonged unemployment, and a downturn in economic activity in the United States. It also led to a global recession and a sovereign debt crisis in Europe.

Critics of the financial crisis have argued that the regulatory framework did not keep pace with rapid innovation in financial markets and have asked for increased regulation and enforcement. Various regulatory reforms have been passed in the United States, and European regulators introduced Basel III regulations for banks.



TERMS TO KNOW

Bailout

A rescue, especially a financial rescue.

Banks

An institution where one can place and borrow money and take care of financial affairs.

2. Growing Areas of Finance

There are various growing areas of finance, including:

- *Microfinance*: the provision of a wide range of financial services, including savings accounts, to the poor. Microcredit is a part of microfinance that involves the extension of very small loans (microloans) to impoverished borrowers, often with the goal of supporting entrepreneurship and/or alleviating poverty, also known as a means of extending **credit**.
- *Peer-to-peer lending over the Internet*: another growing development in the financial sector, to which the principles of microcredit have also been applied in attempting to address poverty, as well as various non-poverty-related issues.

➔ **EXAMPLE** Such efforts include **crowdfunding**, a term describing the collective effort of individuals who network and pool their resources to support charities initiated by other people or organizations. The rules for crowdfunding are still being developed, and the Securities Exchange Commission has yet to set rules in place for equity crowdfunding campaigns involving unaccredited investors for private companies.

- *Algorithmic trading*: now widely used by pension funds, mutual funds, and other institutional traders; it is the use of electronic platforms to enter trading orders with an algorithm that calculates aspects such as timing, price, and quantity. Proponents have argued that algorithmic trading substantially improves market liquidity, while critics argue that this type of trading is opaque – a “black box” – and may contribute substantially to market volatility.
- *Impact investing*: refers to investments made based on the practice of assessing not only the financial return on an investment, but also its social and environmental impacts.



TERMS TO KNOW

Credit

A privilege of delayed payment extended to a buyer or borrower on the seller's or lender's belief that what is given will be repaid.

Crowdfunding

Funding by many individuals pooling their money together for a common goal, usually via the Internet.

3. Employment in Finance

The financial sector is a large field offering many different types of employment. Financial services encompasses a broad range of organizations that manage money. The following table describes jobs related to these areas:

Organization	Employee Role
Banking	Employees may serve the range of roles needed to run banks, from tellers to financial planners and underwriters to wealth managers.
Credit Card Issuers	Workers may be employed in a variety of functions by credit card issuers, such as customer service, foreign exchange service, high-profile trading, and airport currency exchangers.

Investment Funds	Financial analysts may work for government investment funds, mutual fund companies, hedge funds, private equity investors, and investment banks.
Financial Institutions, Including Peer-To-Peer Lending Platforms	Credit analysts work in a variety of institutions to assess the creditworthiness of firms, governments, or individuals for loans.
Insurance	There are insurance brokers and underwriters as well as actuaries and a host of other positions such as insurance claims investigators and agents.
Stock Brokerages	Stockbrokers assist investors in buying and selling shares.
Investment	There are also investors called venture capitalists and angel investors.
Other Areas	Finance professionals may also work in public finance, for local or national governments, or in corporate finance.

Growth in microfinance and microcredit has also opened up employment opportunities in finance both in the US and abroad.

Sophisticated mathematical and technological developments have also advanced the field of quantitative analysis for those who work in investment management, risk management, derivatives pricing, algorithmic trading, and other areas that require the application of mathematics in finance.

Financial employees can come from a variety of backgrounds. Many financial analysis and management positions require some kind of training in finance, accounting, economics, mathematics, engineering, or another quantitative field. There are master's degrees in finance and business as well as certifications such as the widely recognized Chartered Financial Analyst certification and accountancy qualifications such as the Certified Public Accountant.



TERM TO KNOW

Underwriter

An entity which markets newly issued securities.



SUMMARY

In this lesson, you learned about recent events and trends in finance, as well as the various jobs associated with the field. **Financial crisis and regulation** have been at the forefront since 2008, when the economy collapsed and the effects rippled throughout the globe. **Growing areas of finance** like microfinance, peer-to-peer lending, algorithmic trading, and impact investing are changing how investment and lending have traditionally been conducted. **Employment in finance** is diverse, and financial professionals can be found in industries like banking, insurance, and investment services, along with many others.

Best of luck in your learning!

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