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Bachelor Thesis

RESPONDING TO SYSTEMIC RISK

THE BAILOUT AND NATIONALIZATION OF AIG AND HRE IN COMPARISON

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Abstract

As a response to the Great Financial Crisis from 2007 onwards, governments of the developed economies did intervene to unprecedented levels to prevent the meltdown of the global financial system. However, given the lack of resolution schemes and large information asymmetries, they did often choose policies that further destabilized highly fragile financial markets. In the U.S. and in Germany the bailout and nationalization of American International Group and Hypo Real Estate serve as exemplary cases for governments difficulties in responding to systemic risk and dealing with troubled systemically relevant firms. The study at hand sets out to provide a detailed comparison of the bailout and nationalization of AIG and HRE by integrating the case studies into theoretical debates on the fragility of global finance, systemic risk and different means of state interventionism. Moreover, the study aspires to provide an assessment of the influence of financial lobbies on the terms of the firms' bailout and nationalization. Major findings include both governments limited ability in responding to systemic risk, which is explained by large asymmetries of information and the insufficient expertise on the side of the American and German policymakers. The study further argues that for both cases these constraints are compounded by the strong influence of financial lobbies pushing for an allocation of losses at the expense of the American and German taxpayer.

Keywords: Systemic Risk, Regulation, Bailout, Nationalization, Financial Lobbies