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THE FINANCIAL CRISIS OF 2008 FROM A PHILOSOPHICAL PERSPECTIVE

Μεταπτυχιακή Διπλωματική Μελέτη

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ABSTRACT

In 2011, the National Commission of the Federal Government of United States published a report explaining the financial crisis and mentioning its main conclusions. The five conclusions consist of the failure of the regulative and supervisory system, failure of corporate governance and risk management of financial institutions, excessive borrowing and risky investments, inconsistent government response, and failure in accountability and ethics. The main research question of the study is the identification of the conclusions of the financial crisis, explained through a philosophical perspective. The four main philosophical notions used in our analysis is the golden mean of life, the punishment of the soul after an arrogant behaviour, the importance of provision for the difficult circumstances and to consider divine law in respect with the human law. Through our discussion it was found that we were significant problems during the years leading to the financial crisis, based on philosophical view. Therefore, we suggest two policies that could be applied, in order to prevent these difficult circumstances. The first is Financial Literacy, where young generation will be introduced to the financial world, since as it was proved there was lack of financial knowledge. The second is Classical Studies that could be applied in a broader scale, and give the chance to individuals to change their worldview based on the values taught across the centuries.

Ημερομηνία: 15 Δεκεμβρίου 2020

**ΤΜΗΜΑ ΛΟΓΙΣΤΙΚΗΣ
ΚΑΙ ΧΡΗΜΑΤΟΟΙΚΟΝΟΜΙΚΗΣ**

15 Δεκεμβρίου 2020

Συντονιστή Μεταπτυχιακών Προγραμμάτων
Τμήματος Λογιστικής και Χρηματοοικονομικής

Β Ε Β Α Ι Ω Σ Η

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Η εξεταστική επιτροπή,

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PART A

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CHAPTER 1: INTRODUCTION

The financial crisis that started in the United States in 2007 has been spread around the globe.

The crisis was associated with financial panic and the bankruptcy of some of the biggest financial firms, such as insurance companies, investment companies and institutions that were providing financial services to the public, along with uncertainty for the future prospects of various economies.

The Western civilization has roots from the classical education. The culture of each country is based on the values and morals that were taught through the centuries. There are different principles that shape the worldview of their citizens on the basis of their philosophy or their actions. The Western civilization does not have origins only from classical education, but was formed through different phases across the centuries. One important phase was the Age of Enlightenment. The Age of Enlightenment was based on the power of reasoning as the state of human in different aspects such as the socio – political ordinance, educational, economic and religious (Zakai, 2006). Additionally, the importance of progress of the soul and society were key principles of the Enlightenment. It is important to mention that this world movement was revered on the Ancient Greek and Roman philosophy.

Through last decade, one of the biggest economic events that occurred, was the financial crisis, which started in the middle of 2007. It was a financial event that was spread from United States (US) to different countries and more specifically in developing countries such the ones of the European Union. Different aspects of the financial crisis were used by researchers for the explanation of this financial event. Furthermore, there is a wide literature review that examines

the financial consequences of the crisis and suggests policies that can be implemented in order to prevent other crises in the future.

This study figures out the main conclusions of the financial crisis mentioned in the Report published by the National Commission of the US government and explains them through a philosophical perspective. Different values and notions that are taught through centuries, and shape the Greek culture are identified for the analysis of these conclusions. Different phases that changed across the centuries in humanity, were having origins from the Greek philosophy. Therefore, the study takes the chance to explain the financial crisis from this different point of view.

Irrespective of the main financial problems that were identified through the years, this study examines them from a different point of view. The main research question of this paper is the identification of the main conclusions of the crisis from the philosophical perspective. As it will be discussed in the following sections, different philosophical problems were identified for the years leading to the financial crisis. The aim of the study is to explicate the conclusions of the financial crisis from a philosophical viewpoint.

Through the years, the main causes of the financial crisis were pointed, however, there are still unanswered questions. The first main cause of the financial crisis of 2007 was the subprime lending, where banking sector was providing loans to low credit score clients, as the lending standards were reduced by the Federal Reserve. The second cause was the low regulation and supervision of the Banking Sector and financial institutions. The regulatory system reduced their standards in order to boost the economic development of the country. The third cause

was securitization, where financial institutions were sampling different types of loans, including loans that were provided to low credit score and high credit score clients, and were selling them as securities to different investors.

In 2011 the National Commission of the Federal Government of United States, published a report that was explaining the financial crisis and underlying its five main conclusions. The first was the failure of the regulatory and supervisory boards to manage the different circumstances. The second was wrong corporate governance and risk management procedures that were used by the financial institutions. The third was the excessive borrowing of the main players of the market and the exposure to high risk products. The fourth was the inconsistent response of the government to the problems that arise. Finally, the fifth conclusion was the systemic breakdown of the accountability and ethics.

As it was mentioned before the Western civilization, shaped its culture from the classical studies. This paper uses some of the main philosophical notions for the examination of the financial crisis. The first is based on Aristotle, the famous philosopher who identified the Golden mean. The second, is based on the Greek mind – set where after an arrogant behaviour always there is a punishment, known as hybris, ate, nemesis, tisis. The third, is the importance of the soul to be prepared for the uncertain future based on the Speech of Pericles and the identifications of Aristotle. The final norm is the value of giving attention not only to human law but also to divine law as it was demonstrated in the play of Antigone, written by Sophocles, the famous tragedian.

Finally, the paper suggests two policies that could be applied in the future, in order to prevent the difficult circumstances of the crisis. The first is Financial Literacy that will give the chance to the main players of the market to have a knowledge regarding different matters of the economy. The second is the importance of Classic Studies, where people will understand some values and norms that were taught through the years, and have the chance to apply them in their everyday life.

In the following section (Section 2) there is going to be an explanation of the main causes of the financial crisis, and how it was spread all over the world, along with a justification of the main conclusions mentioned in the Congress Report of the US government. In Section 3 we will demonstrate the main philosophical phrases mentioned by Ancient Greek. Then, in Section 4, there will be discussion relating the conclusions of the Congress report with the philosophical views. The final main section (Section 5) will suggest policies that could be applied in the future.

PART B

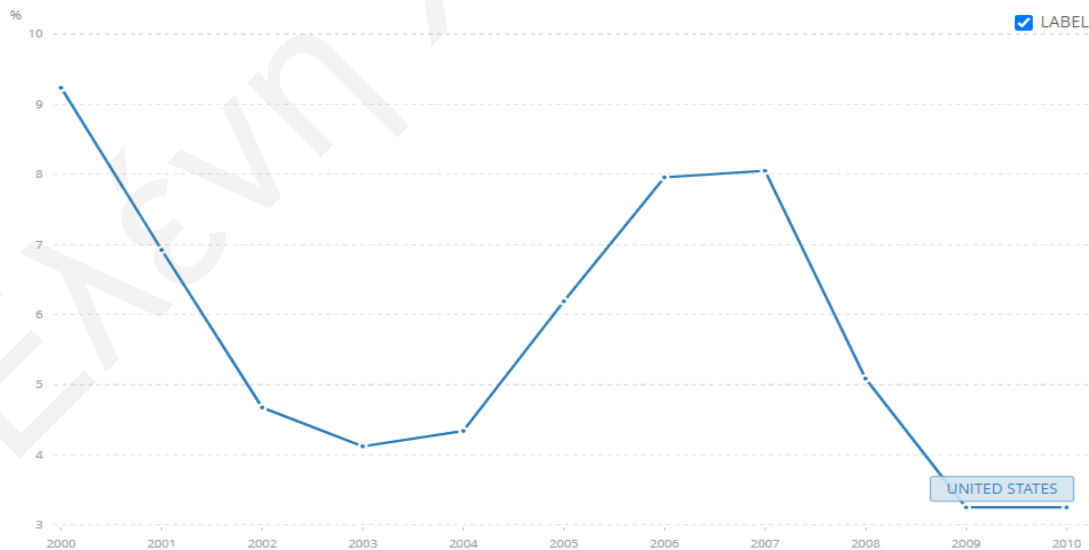
Ελένη Χατζηπιέρου

CHAPTER 2: MAIN CAUSES OF THE FINANCIAL CRISIS

2.1 TIMELINE

The history of economic and financial crises goes back to many centuries ago from the moment when nations moved from barter trading to trading with gold or currencies. There are different crises that are still well known, through the decades, but the Global Financial Crisis of 2007 could be characterized as an important financial event for the global economic history. The crisis, affected the economic performance of different countries around the globe. Different imbalances in the operations of the financial system increased even more the chances of a crisis in the years leading to 2007. In this section I will present a brief timeline of the financial crisis.

During 2000 the Federal Reserve, decided to decrease the interest rates of housing loans, as an encouragement for more investments and housing loans. In theory, lower interest rates offered by banks, can boost the economic development of the country. In such a case the interest rates decreased sharply. The lending interest rates of US banks were decreased from around 9% in 2000 to 4% in early 2005.



Picture 1- Lending Interest Rates of US during 2000 – 2010 –source: "Lending interest rate (%) - United States | Data", 2020

These low interest rates, gave the chance to individuals to have easier access to mortgage loans. As the interest rates were low, people had the chance to borrow higher amounts and pay lower instalments. Due to loose regulatory system, the financial institutions had the opportunity to provide mortgage loans to low credit score clients.

While interest rates were decreasing the financial sector was using the well-known “Shadow Banking”. Shadow Banking does not have many different characteristics from the traditional operations of a regular bank, but is more sensitive to changes in the economy. However, through this process the banking sector tries to reduce their risk. Securitization and repo market are the two common practices used by the institutions in the Shadow Banking (Gorton, 2010).

Securitization is one of the common practices used by institutions in the performance of Shadow Banking. The process will be explained in detail through this section, on how securitization works, and how this process resulted to be one of the main causes of the financial crisis of 2007 (Fabozzi & Kothari, 2008). Briefly, the securitization process is based on sampling different assets and issuing a security through the Special Purpose Vehicle (SPV), which is sold in the secondary market.

Mortgage Backed Securities (MBS) is one example of the Securitization process used by banks, in order to have more liquidity. MBS are based on financial contracts, like bonds that were sold to investors. This kind of bond was backed by securing real estate loans. These mortgaged loans were transferred to an Investment Bank, and was grouping these loans together and selling them to investors in the form of bonds. In such cases, the bank was obtaining liquidity in

exchange of these mortgage loans. The investors were receiving as a return of their investment, the proceeds from the repayment of the mortgage loans.

A second practice used by banking institutions was Repo market (or repurchase market). Repo market is well known as a short term overnight borrowing. It is based on a short term collateralized loan, used when there is liquidity shortage (Sanches, 2014). It is an agreement between a lender and a borrower, where the borrower agrees to buy back the securities at a higher price (having a certain interest rate). These agreements were used by institutions that have accessible liquidity (cash) and were looking to gain quick profits, with the lowest risk (Gorton, 2010).

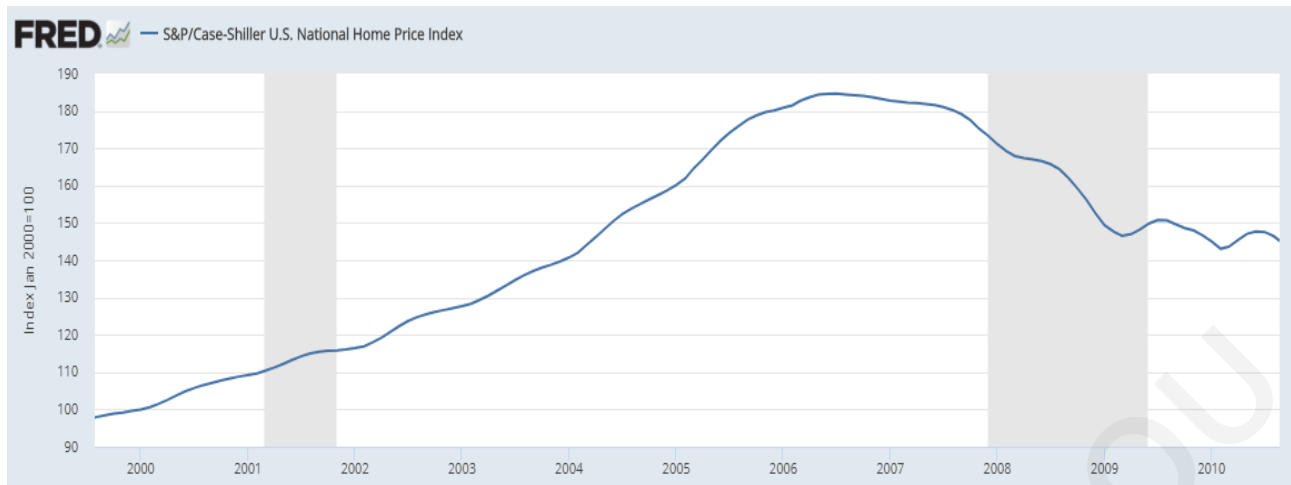
Meanwhile, the regulation system of the country was taking the downturn. An important event that increased the deregulation of the country was that regulators transferred their activities to Credit Rate Agencies (CRA) in 2001. This means that CRAs were responsible to measure and assess the capital requirements of each bank, according to their risk. The CRAs were rating the financial institutions' securities as AAA, and the same instruments were turned into default in the long term (W. Murdock, 2013). As a result, the financial companies were having less capital than that that was prudently required.

During 2004, the Securities and Exchange Commission (SEC) decided to loosen the capital requirements of brokers. Brokers were allowed to use their own mathematical models to calculate the capital requirements of these instruments (Securities and Exchange Commission, 2004). This encouraged investment banks and brokers to be exposed to higher debt and risks. Investment banks started investing more in MBS which were based on subprime loans. As a

result, the leverage ratio of these banks increased dramatically. It could be noted, that the financial institutions had to report their capital adequacy, however, since they were having their own measurement models, each company had a different method of calculation, and obviously a different capital ratio.

While the regulatory conditions of institutions relaxed, borrowing increased rapidly. Lower interest rates and easier lending conditions encouraged individuals to have easier access to loans. Households were encouraged to fulfil their “American Dream”, as the financial sector was providing loans to with lower credit rating than the average. However, the interest rates of such loans were much higher from borrowers with better rating. These loans were secured with a collateral, and in subprime lending, it was most of cases the permanent residence of these individuals. The easier access to new lending, gave the opportunity to individuals that were not able to access real estate, to create wealth.

As households were increasing their debt, house prices started to be inflated too. While there was a boost in the real estate market, low credit score clients were demanding more housing loans, as they were feeling wealthier. This is because, the value of their asset (based on real estate) was increasing too. In the below chart, we can establish the house pricing index of US market. The housing prices hype, as it is shown in Picture 2, it was between the years of 2004 to 2007, where there is an obvious increase of the house price indices.

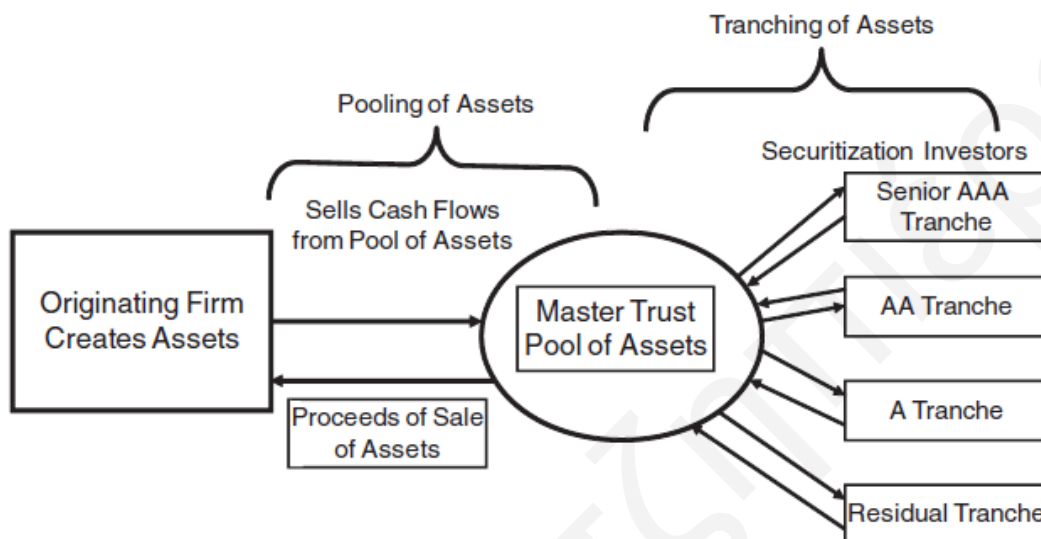


Picture 2- Housing price indices in US Market - source: S&P/Case-Shiller U.S. National Home Price Index, 2020

At the same time, households were getting overleveraged, banks designed financial instruments that were sold to the secondary market. This process is called Securitization, and is a process of pooling together different financial assets, such as loans or other assets that generate cash flows. This was profitable for the Banking sector, since they reduced their risk by selling these mortgage loans when they were able to obtain high prices as at the time of sale these loans were performing.

Picture 3, presents the simplest process used for securitization from financial institutions. A financial intermediary employs brokers that seek to find potential borrowers. The broker (who takes commission) tries to provide lending opportunities to individuals, even if these people do not have the ability to secure these. As it was mentioned before, the lending standards were less strict and this enabled brokers to lend more easily. These loans are then funded by SPVs (Special Purpose Vehicles), which is not a physical firm, but an artificial company that tries to manage the financial risk of the main company. The SPV then, sells these securities based on their Tranches, to the secondary market. The Tranches are categorized according to the level of risk based on the quality of assets behind the loans, and then these are sold to investors across the world, such as pension and hedge funds. Securitization process was highly profitable, as the

prices of the housing market continue to increase (Gorton, 2010). Additionally, securitized assets were ensuring a monthly payment to the security investors. This means that the monthly down payment from individuals was transferred directly to investors.



Picture 3- Simple Securitization process – source: Gorton, 2010

It could be noted that this instrument was quite complex, which resulted to be unmanageable and vulnerable to changes in the economy. Also, through time, more and more households with low credit score started borrowing money, which made tranches more risky, and rating agencies did not disclose the full information of each tranche. Tranches were having different quality groups of assets, both low risk and high risk. As a result, investors were buying bonds with low risk, rated as AAA, however, in the specified group there were assets with higher probability of default.

During the third quarter of 2006, real estate sales started falling, which affected the housing prices. It was the first time after many years, that housing market reported a price reduction.

This was the time that the housing “bubble” burst, causing many different negative consequences, lasting many years later.

Once the prices started falling, both low and average credit score clients, were unable to repay their monthly payments to their loans. The effect was that, both banks were not receiving revenues and investors who invested in such securitized bonds, based in real estate, did not receive their income. Individuals were not motivated to pay their loans, since their house prices were decreasing, and at the same time they were feeling uncertainty for the future.

Meanwhile, banking sector was overleveraged. As loans started to default, banks had to increase their provisions on such loans and at the same time the banks had to meet increased capital requirements, resulting from these non- performing loans. Simultaneously, creditors (depositors) were withdrawing their funds, as they were feeling uncertainty. This reduced even further the liquidity of banks, which started requesting assistance from the government.

However, while the housing bubble and the volume of financial sector was increasing, some companies merged or acquired by others. This resulted to some organizations, to be too big, in order to bankrupt, as they were going to have a negative domino effect in the economy (too big to fail). The same organizations were highly exposed to the mortgage market, and vulnerable in housing market changes. In addition, as the house prices started to decrease, the investors started selling their stocks in the market. This reduced prices of the houses affecting the value of the collaterals to all of the loan portfolio of Banks. Also, the downgrades from Credit Rate Agencies damaged further the banking industry.

Some organizations were rescued by the government, or a private company, and some others became bankrupt. Two of the main companies that were rescued from the government were AIG and Bear Stearns.

The American Insurance Group (AIG), was one of the largest insurance organizations of the world, who was highly investing in credit default swaps. The government knew that if this insurance company goes bankrupt, the financial system was going to be affected even more negatively on the crisis. Therefore the Federal Reserve announced a bailout scheme of \$85 billion, in the form of a two year loan (Mathiason, 2008).

Bear Stearns was acquired by JP Morgan and it was the first player who was influenced from the crisis. The JP Morgan, investment bank, agreed to buy Bear Stearns in 2008, for just \$2 per share. This price was way too low, as the market closed to \$30 per share in 14th of March of 2008 (Moyer, 2018). It could be interesting to mention, that one year earlier the share price of Bear Stearns reached the level of \$170 per share, which was a quite high price (Shorter, 2008).

However, Lehman Brothers, the investment bank, collapse in September 15th of 2008. It was one of the biggest financial organizations that collapsed in the History of America as the company was highly exposed to mortgage loans, which made it inevitable to be rescued. After many hours, where the company was trying to be sold, it was filed as collapse (Amadeo, 2020).

The economic downturn was rapidly spread to the global financial markets and affected dramatically the European Union. The most important effect, was that there was a chaotic situation in the financial sector. The future was uncertain, and people in order to secure their banking deposits, were withdrawing them from the banks. This increased further the need of

extra liquidity in the banking sector, as they were also exposed to high risk loans. Additionally, as it was mentioned before, investors all over the world were investing in mortgage bonds. Once loans turned to be in default, investors did not receive their monthly returns and the value of this bond decreased dramatically, which affected negatively the global. Countries that were significantly influenced from this crisis, was Greece, Spain, Italy and Cyprus. Their governments were not able to support the Banking sector as it was happened in United Kingdom and US.

The increase in unemployment, the fact that the private and business sectors had difficulties to service their existing loans and to have access to new lending lead to lowering growth rate of economies. Additionally, lower consumer spending due to unemployment and uncertainty in the market, reduced even more the growth rate of economies. Countries were not hit from the financial crisis all at the same time, however, there are some that are still struggling, due to inefficiencies of their economic, legal and banking systems.

2.2 CONCLUSIONS OF THE FINANCIAL CRISIS

The financial crisis of 2008, was one of the biggest financial events. Different collapses affect economies until today, and there are still questions with no answers regarding the actual causes of this financial failure. Despite of the causes of this crisis, it could be concluded that both economic and financial systems were damaged. The National Commission of the US Federal Government issued a report, known as “The Financial Crisis Inquiry Report” (2011) that mentions the main conclusions from the Financial Crisis 2007. These factors will be analyzed

below, and in the following sections there will be a connection of these findings with some philosophical notions.

- 1. We conclude widespread failures in financial regulation and supervision proved devastating to the stability of the nation's financial markets.** Supervisors and regulators failed to manage financial entities. Financial institutions, such as investment banks were self-regulated, which increased the chance of failure, since no one was supervising them. This means that financial institutions were bearing more risk than they actually could afford. The financial industry was having the biggest market share, which gave power to institutions to influence the financial performance of different industries. Additionally, it is highlighted that regulators were continuing to rate financial institutions as safe, and when they were under trouble, they were downgraded, just before they were bankrupt. Finally, the report mentions that it is not accepted that the regulators failed to protect the financial system, since they chose to do it so.
- 2. We conclude dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis.** The financial system was exposed to high risk, as the regulatory system was not very strong and entities were careless regarding the balance of their risk and return. There were times that financial institutions have been exposed to high risks, without having adequate capital reserves in order to absorb possible losses deriving from such risk. Also, the institutions were investing speculatively as high short term profits were targeted. Such investments included for example financial products in entities where mergers and acquisitions took place. These activities were giving the chance to institutions to expand even further, but their

management was difficult. As it was mentioned above, they had to keep low levels of capital in order to support their operations.

Furthermore, CRAs were providing models for predicting the risk of organizations. In the years leading to the financial crisis these risk predictions tools were used to replace judgement and most of the times risk management procedures were converted to risk justification. However, as the regulatory system was weak and the market competition high, the cases of quick deals, even with high risks and with short term profits, were commonly used by firms. These type of deals were increasing the chance of negative long term consequences in the whole market. Financial institutions were exposed to high risk as they were investing in “safe” mortgage loans, which resulted to default loans and billions of dollars losses.

- 3. We conclude a combination of excessive borrowing, risky investments, and lack of transparency put the financial system on a collision course with crisis.** The years that were leading up to the financial crisis can be described as years with excessive leverage. Investment institution increased their risk by placing money to high risk products. Firstly, households were borrowing mortgage loans (property loans) or private property owners were placing their house as a collateral to other types of loans that they were borrowing. These mortgage loans were giving the chance to individuals to borrow funds for speculative investments or obtain funds to be used for their personal use, even if they were unable to repay the full amount of this type of loan, and providing as a collateral their own property (most of the times their house). On the other hand, financial institutions were borrowing either through Over – The – Counter or overnight markets. It is important to mention that

most of these operations were hidden as off- balance – sheet operations, which increased the riskiness of the financial entities. These highly leveraged situations, resulted to individuals and financial institutions to be vulnerable to changes in the economy conditions.

- 4. We conclude the government was ill prepared for the crisis, and its inconsistent response added to the uncertainty and panic in the financial markets.** The financial system and regulators were not prepared for this crisis. The housing bubble was expanding through the years, but regulators and the whole economy were not taking any actions for this situation. The signs were underestimated from the agencies, while the system was overgrowing towards the wrong direction and the regulators and policy makers were not able to manage it. It could be noted, that policy makers were not able to handle this crisis on the first sight, and they had no plans of actions that could be taken if the market conditions deteriorate. Also, government was not able to handle the burst of this bubble, and this resulted to a panic in the economy. This means that the government tried to rescue financial institutions, but it was difficult to rescue them all. In this respect, they have rescued some institutions through bail-out scheme, which brought more panic to the economy, as big organizations went bankrupt. It is important to mention that this huge overgrow institutions, even after obtaining the government aid, were not able to take measures to avoid any other risks and gain back to confidence of the market. There was uncertainty in the economic system, since different institutions and organizations were affected dramatically from this situation, not only domestically but worldwide. The government was making efforts to reduce the panic that was generated, and tried to stabilize the domino effect through different rescue programs.

5. We conclude there was a systemic breakdown in accountability and ethics. The public was relying on the financial markets, as they believed that fairness, transparency and responsibility was taking place. However, as it was proved there were inefficiencies in the market regulation in the years leading to the financial crisis. Firstly, significant information regarding the financial securities that were sold to investors was not disclosed. This denotes that investors were not correctly informed regarding the financial securities that they were buying. Secondly, financial institutions, aiming to increase their short term profits as they were providing mortgage loans to people that actually were not able to repay them back. Most of the mortgage loans that were provided, were defaulted shortly after obtaining the loan. Additionally, financial institutions were “mixing” these loans good mortgage loans, and they were providing these packages to investors. However, financial institutions did not provided the full information regarding the risk of the whole loan portfolio included in these investment packages.

CHAPTER 3: ANCIENT GREEK PHILOSOPHICAL NOTIONS

This section will be based on the explanation of the certain philosophical notions from Greek philosophy. The different meanings through notions and tragedies, are still known until today, and are part of the Greek culture.

3.1 GOLDEN MEAN (ΜΕΤΡΟ)

The golden mean (or μέτρο, μεσότητα in Greek) of the soul is identified through Nicomachean Ethics. The mean, is an arête of the human, and more specifically in its character, as it is based on the morality of souls. The optimum could be found in between two extremities, the lowest and the excess. More specifically, Aristotle mentions the below:

“Ἐτι ἐξ ὧν αὐτοὶ οἱ ἐν τῷ μαθήμασι λέγουσιν, εἴη ἂν τις ἀτομὸς γραμμῆ, ὡς φασιν, εἶπερ σύμμετροί εἰσιν αἰ τῷ αὐτῷ μέτρῳ μετρούμεναι. Ὅσοι δὲ εἰσι σύμμετροι, πασαὶ εἰσι μετρούμεναι. Εἴη γὰρ ἂν τι μήκος, ὃ μετρηθῆσονται πάσαι. Τούτο δ' ἀνάγκη, ἀδιαιρετόν εἶναι. Εἰ γὰρ διαιρετόν, καὶ τὰ μέρη τούτων οὐ μέτρου τινός ἔσσονται.” (Aristotle, 1832)

The mean that needs to be achieved is like a straight line, human should not try to reach the highest or the lowest level, but they should set an optimum which will be in the middle of the two extremities. This is the goal of the human, to have a balance in their life. The mean is not identified as a mathematical sentence, it is not quantitative. The optimum, is known as qualitative and is characterized as the arête of the soul. It could be interesting to mention that the mean is not the same for each human. The mean changes according to each soul. However, Aristotle mentions that the mean is based on the society balance, and what was taught across the years.

3.2 HYBRIS > ATE > NEMESIS > TISIS

One of the well known figurative that we were taught through the Ancient Greek tragedies, is when the soul tries to exceed the human limit known as Hybris and Ate, there will be always a penalty known as Nemesis and Tisis. This was addressed through Hybris, Ate, Nemesis and Tisis, in the Greek tragedies and poems.

Ancient Greek tragedies point out Hybris (ὑβρις), which describes the arrogant behavior of people in different circumstances. It is noted that hybris in most situations, violates the ethical manner of a community. This term was first introduced in Eliada written by Homer and in the Ancient Tragedies. Hybris expresses the excessive towards the limit of God. In other words, when people believe that they have more power than they actually have. The soul may overcome their limits and violate not only human laws, but also divine laws. It explains the excess conceit of the soul towards others. Hybris could be well described as a “state of mind”, as Fisher (1976) mentioned, were the soul tries to satisfy their wants and desires. This excessive arrogance most of the times leads to Nemesis (Νέμεσις).

An arrogant behavior of the human is likely to cause Ate (ἄτη). In Ancient Greece Ate was said to be the daughter of Zeus. In Greek mythology, Ate provokes Gods’ intervention, as it was likely to blind human brain and made it act inconsistently. Therefore, Ate was blurring the view of people towards to what is characterized as “good”. The following text is a quotation from Eliada written by Homer, when Achilles avenges Hector. It is mentioned that Ate, the daughter of Zeus blinds human thoughts. It was metaphorically stated that she does not walk on the ground, she walks on people heads, in order to change their mind.

*“ἐγὼ δ' οὐκ αἰτιός εἰμι, ἀλλὰ Ζεὺς καὶ Μοῖρα καὶ ἠεροφοῖτις Ἐρινύς, οἳ τέ μοι εἰν ἀγορῇ φρεσὶν
ἔμβαλον ἄγριον ἄτην, ἥματι τῷ ὄτ' Ἀχιλλῆος γέρας αὐτὸς ἀπηύρων. ἀλλὰ τί κεν ῥέξαιμι; θεὸς
διὰ ἄντα τελευτᾷ. πρέσβα Διὸς θυγάτηρ Ἄτη, ἣ πάντας ἀἄται, οὐλομένη· τῇ μὲν θ' ἀπαλοὶ
πόδες· οὐ γὰρ ἐπ' οὔδει πίλναται, ἀλλ' ἄρα ἢ γε κατ' ἀνδρῶν κράατα βαίνει βλάπτουσ'
ἀνθρώπους· κατὰ δ' οὖν ἕτερόν γε πέδησε.” (Ὀμηρος, ~8ος αι. π.Χ., Τ 85-94)*

The Greek worldview, as it was taught through tragedies, is based on the norm that after hybris the soul will suffer from nemesis. Both ancient and modern Greek society has the same belief that excessive arrogance could lead to nemesis. Nemesis is known as the forfeit. Most of the times, arrogance and overconfidence lead to a punishment of the human being. In Ancient Greek Tragedies, nemesis was shown as a form of anger of Gods towards the humanity. Zeus revenge the soul which results to Tisis (τίσις). This is the punishment of human that arise through its mind blindness. When the soul tries to exceed the limits and rules set by God, tisis will arise. The Greek viewpoint is always based on this mindset. In Ancient Greece, hybris was likely to result to an intervention of God, this view changes across the years, but the main concept of this norm is known until nowadays.

3.3 PROVISION FOR THE DIFFICULT CIRCUMSTANCES

One important concept that was highlighted in the speech of the Greek influential orator Pericles was regarding the provision of people for the long term. The speech was depicted by Thucydides, and it was taking place in the Funeral of dead people of Peloponnesian War.

Pericles, mentions in his speech that dead people will remain in their mind as heroes, and everyone should be proud of them. Also, through his talk he motivates Greek citizens to be

prepared for the difficult circumstances that may arise. In this case, civil war and war, which were taking place around 430 B.C. He states that it is not mandatory to work hard and live a healthy life to win the enemy, but it could be easier to fight against the enemy. This can be the result of a great work, and can bring the victory of war for Greeks. Thucydides highlights the below:

“Καὶ βέβαια, ἂν ἐμεῖς ἀντιμετωπίζουμε μὲ πολλή προθυμία τοὺς κινδύνους, μᾶλλον μὲ μιὰ ἀφροντισιὰ καὶ ἄνεση παρὰ μετὰ ἀπὸ ἐπίπονη ἄσκηση, καὶ μὲ ἀνδρεία, ἢ ὅποια ὀφείλεται ὄχι τόσο στὴν ἐπιβολὴ τῶν νόμων ὅσο στὴν φυσικὴ μας εὐψυχία, ἔχουμε τὸ πλεονέκτημα ὅτι δὲν καταπονούμεθα προκαταβολικὰ γιὰ δεινὰ, τὰ ὅποια ἀνήκουν ἀκόμα στὸ μέλλον, καὶ ὅτι, ὅταν φθάσει ἡ ὥρα τῶν δεινῶν αὐτῶν, ἀποδεικνυόμαστε ὅτι δὲν εἴμαστε λιγότερο τολμηροὶ ἀπὸ ἐκείνους ποὺ μοχθοῦν ἀδιάκοπα.” (Θουκυδίδης, 2010, §39)

He tries to be an inspiration to the Greeks who will fight for their country. Therefore, it is important for them to be prepared for the difficult times that may arise, even if in the present everything goes well. Pericles, talks about the importance of willingness of Greek citizens to help their empire in difficult situations. The soul should be ready both externally (body strength) and internally (mentally) prepared for the challenges that will arise.

Moreover, through Nicomachean Ethics, Aristotle highlights the importance of preparation of people for the war. It is mentioned that men, should know how to use a gun in order to be prepared for a difficult situation. They should have the needed experience to be such calm to handle a difficulty, and in the case of Ancient Greece, the war. People should be motivated, to

develop the relevant experience, when the years are calm. They should not wait until the risk will come.

“έν τοῖς πολεμικοῖς δ’ οἱ στρατιῶται· δοκεῖ γάρ εἶναι πολλὰ κενὰ τοῦ πολέμου, ἃ μάλιστα συνεωράκασιν οὔτοι· φαίνονται δὴ ἀνδρεῖοι, ὅτι οὐκ ἴσασιν οἱ ἄλλοι οἷά ἐστιν. εἶτα ποιῆσαι καὶ μὴ παθεῖν μάλιστα δύνανται ἐκ τῆς ἐμπειρίας, δυνάμενοι χρῆσθαι τοῖς ὅπλοις καὶ τοιαῦτα ἔχοντες ὅποια ἂν εἶη καὶ πρὸς τὸ ποιῆσαι καὶ πρὸς τὸ μὴ παθεῖν κράτιστα” (Burnet, 1900, 1116b4-116b11)

The relevant experience and preparation will bring the victory of war. They need to know how to handle the difficult situations, in order to appear brave in the eyes of the enemy. It was highlighted that bravery could be a sign of awareness. Also, Aristotle states that the higher the preparation in an easy time, will result to positive results when something goes wrong in the long term. Therefore, it is important for the soul to take the time their self and be prepared both mentally and physically for the difficult times.

3.4 HUMAN VERSUS DIVINE

In Ancient Greece, there is a reference of a Myth regarding the human law and divine law, written by Sophocles who is one of the most famous Greek tragedians, whose tragedies have survived across the years.

The play is called “Antigone” and is one of the myths – tragedies that is located in Theban.

Polynices and Eteocles are the twin brothers of Antigone, where Polynices started the civil war of Theban opposite his brother for the throne, due to the fact that Eteocles forced Polinices to leave Theban. The war ends up, where both of them die while fighting. Antigone the main

player of this tragedy, was the sister of Eteocles and Polinices, along with Ismene. Since both men died in the civil war, the new throne ruler, Creon, comes to decide for their burial. Since Creon, sets the law, he decides to bury the dead body of Eteocles, and shame the body of Polinices to prey for the animals, as a punishment. This was because Polinices, opposed against his brother Eteocles and Theban.

In contrast, when Antigone finds out the decision of Creon, she refuse the human laws set by Creon, and bury her brother Polinices according to Zeus rules. Gods' rule, based on the notion that everyone has the right to bury, even if they done something wrong. However, Creon, the one that sets the rules has a different opinion. Antigone meets Creon, and they are discussing about the law and his decision regarding the punishment of the dead body of Polinices. She tries to explain him that there are laws, that are never written, but were and will be always known since God (Zeus) set them. There are God's Laws, where no one can intervene to change them, even when there are human laws that are against them. Also, Antigone mentions:

«Οὐ γάρ τί μοι Ζεὺς ἦν ὁ κηρύξας τάδε, οὐδ' ἡ ξύνοικος τῶν κάτω θεῶν Δίκη τοιούσδ' ἐν ἀνθρώποισιν ὤρισεν νόμους, οὐδὲ σθένειν τοσοῦτον ὥόμην τὰ σὰ κηρύγμαθ' ὥστ' ἄγραπτα κάσφαλῆ θεῶν νόμιμα δύνασθαι θνητὸν ὄνθ' ὑπερδραμεῖν. Οὐ γάρ τι νῦν γε κάχθές, ἀλλ' ἀεὶ ποτε ζῆ ταῦτα, κούδεις οἶδεν ἐξ ὄτου ἴφάνη. » (Σοφοκλής, 496-406 π.Χ.)

Antigone, explains to Creon, that Zeus laws, have a greater power than human law. This is because such kind of law, was known and will be known until infinity, while human law can change through time. Also, God's law has a holy power, where people always should follow.

Antigone mentions that Creon, as a human, does not have the power to change the law set by Zeus.

The tragedy shows to people that they should always think about the past and always remember their values. In this case, Antigone resists on her beliefs and argues against the new Ruler of Thebes, Creon. She puts her life into a danger to fight for her beliefs, since the tragedy ends up with Antigone dying, when Creon argued regarding the burial of rebel Polinices.

CHAPTER 4: A PHILOSOPHICAL PERSPECTIVE OF THE CONCLUSIONS FROM THE FINANCIAL CRISIS

In the following section there will be a discussion of the main conclusions of the financial crisis of 2008, as they were established in the Congress Report from the perspective of the notions mentioned in the previous section.

4.1 WIDESPREAD FAILURE OF REGULATION AND SUPERVISION

The analysis of this conclusion will be based on the perspective of three notions: golden mean, hybris / ate / nemesis/ tisis and provision for the difficult circumstances.

First, loose financial regulation and supervision standards are in stark contrast with the philosophical view of Aristotle based on the golden mean. The financial regulation lacked to set regulatory standards that were likely to be abide by all the institutions, as it was impossible to adjust high regulation that was likely to be followed by each organization. This resulted to very low regulatory standards. As it was mentioned by Aristotle, the mean is not based on the lowest or the excess, it is the balance of life. This was not achieved by the financial regulators. In other words, there was deregulation in the financial system, which could be characterised as opposing to the view of Aristotle, the financial regulation and supervision were lower than the optimum.

Second, the failure of the regulatory and supervisory system can be explained in the view of the Greek norm of Hybris, Ate, Nemesis and Tisis. The regulatory system was having an arrogant behaviour based on the way that institutions were managing their performance. This can be connected with Hybris. Therefore, financial supervision and regulation reduced their operations, as they had the belief that the market was efficient. This resulted to a situation that

institutions started to be self-regulated and they were engaged in higher risk investments. Higher risk exposure and low capital requirements of institutions, leads to Ate. This resulted in a situation where different financial institutions failed to have an efficient self-regulatory system and due to their high exposure in risky investments, when the housing prices started to fall, resulted to influence even more the economic environment. It was like a punishment for the regulatory and supervisory system as they had the belief that the market was such efficient that they will be able to be supervised and regulated by their own. This suffer can be related to Nemesis and Tisis, where people are penalized for their conceited behaviour.

Third, the financial system was not well preparing the institutions if the market conditions worsen. Aristotle's and Pericle's theories, highlight the importance for human preparation during good times. This was lack of the regulatory and supervisory system, since they let institutions to be self-regulated, without asking more information regarding the basic models that organizations were using. It could be noted, that there were some basic regulatory standards to be complied by each institution. However, as it was mentioned above, they were not such strict. This resulted, to organizations not be prepared when the market conditions changed as they had inadequate capital revenues to balance the risks that they bear, by investing in high risk products. Supervision, was also too low, which reduced even more the compliance of the rules. This failure of supervisory and regulatory system to prepare the institutions for the difficult situation, comes against to what is taught from Aristotle and Pericles, as low capital adequacy ratios, made organizations more vulnerable during the difficult circumstance.

4.2 FAILURE OF CORPORATE GOVERNANCE AND RISK MANAGEMENT OF INSTITUTIONS

This conclusion will be analysed from the perspective of golden mean, hybris / ate / nemesis/ tisis and the provision for the difficult times.

First, financial companies were exposed to risk that were not able to handle and manage. In the years leading to the crisis, financial companies reduced their risk management procedures. The design of different and complicated models, resulted to lower and lower risk management, which is classified against the theory of Aristotle based on the mean. Financial companies were not trying to stabilize and balance their risk exposure. Therefore, we can observe that low risk managerial processes and higher exposure to risk, increased the vulnerability of these institutions. There was no symmetry in the activities of financial organizations, as they were operating in the two edges.

Second, the financial market can be related to the Greek theory of Hybris, Ate, Nemesis, Tisis. Institutions were sure about their power, and sometimes they overcame their abilities. They were acting recklessly as they were exposed to higher risk than they were actually able to bear. Financial firms were focused in activities that produce much higher profits, and at the same time, organizations were growing aggressively, through mergers and acquisitions, which made them even more vulnerable in different changes in the economy. These circumstances, can link to Hybris and Ate, where human tried to overcome its power and was blind from the quick money. However, the punishment of this high risk exposure and thoughtless actions, was the breakdown of the financial market, which is related to Nemesis. The forfeit, of this excessive arrogance was the bankruptcy of many financial institutions, which is related to Tisis, when the God is enraged to the soul.

Third, institutions did not consider properly the long term consequences of their actions, which was against the norm of Aristotle and Pericles. Financial institutions, were exposed to high risk, aiming to gain short term profits, as they were investing in financial products that were based on subprime loans. The regulatory and risk management system failed to predict the slowdown of the market, and let the financial institutions to be overexposed to risk. Therefore, institutions continued setting low capital requirements based on their own capital prediction models, which affected their performance, in the long run. It could be noted that financial companies, were not considering the future consequences of their activities, which resulted to huge losses.

4.3 EXCESSIVE BORROWING AND RISKY INVESTMENTS

The notions that will be used for the analysis of this conclusion are golden mean, hybris / ate / nemesis/ tisis and the provision for the difficult times.

First, golden mean based on Aristotle contradicts the highly leveraged individuals and organizations in the years leading up to the financial crisis. This implies that financial institutions were not having an optimum or a mean in their actions, but they were overreacting. Banking sector was providing loans in excessive. Additionally, investment banks were overleveraged, due to overnight borrowing, with low capital coverage. Both households and financial institutions, did not balance their activities, which then resulted in the breakdown of the financial system.

Second, hybris and Ate in financial crisis is found in excessive borrowing of both banks and households. The belief of higher profits for the financial sector, could be mentioned as a stage of hybris. It means that institutions were feeling arrogant regarding their power, based on short

term performance. Each individual was exceeding the optimum, through their actions – lending or borrowing – which was increasing the hybris towards fair and the whole good. Once the leverage of both households and institutions exceeded the mean – as Aristotle mentioned – a punishment was going to reduce this excessive activity that occurred. It was like a punishment of this overconfident behaviour.

It could be noted, that Nemesis was the result of the wrong management of different situations before the crisis. Both over-borrowing and risky investments of institutions resulted to a condition where individuals and organizations were penalized. Once the hybris/ate with narcissist characteristics occurred, nemesis/tisis were likely to come over to teach everyone the mean – optimum of the soul. Moreover, the extraordinary exposure of both households and institutions, resulted to a panic in the economy, when the market slowdown, which is linked to tisis, as it was taught in Greek mythology.

Third, households and institution were not well prepared for the uncertain future, which is opposed to the theory of Ancient Greeks, Pericles and Aristotle. On the one hand, households were overleveraged, since they were borrowing from banks, even if they did not had the ability to repay their loan. On the other hand, banks and other financial firms, were exposed to the risk of subprime loans, and they were borrowing overnight, which increased their vulnerability. At the same time, these players, were not saving funds, to be prepared for any change in the economy in the long run. Low capital adequacy, was likely to put them in difficult situations, and this was the main reason why they asked for Government assistance when the financial crisis of 2008 began.

4.4 INCONSISTENT RESPONSE OF THE GOVERNMENT

This conclusion will be analyzed from the perspective of the importance of provision for the difficult circumstances.

The late response of the government in the panic of the financial market, contradicts with the theory of Pericles and Aristotle. As they highlight through their maxims, it is important for the soul to be prepared for the war, even if there is peace in the country. This comes to contradict the government response in the panic of the financial market. As it was established, the government was not prepared for this sudden slowdown of the market, as they were not expecting that the decrease in house prices, will result to this uncertainty in the market. They did not know the full size of the financial system, as it was overgrowing during the years leading to the crisis.

Ill prepared government could be identified as one of the biggest mistakes, since when the market was in a boom, they were not ready to set some policies, in order to prevent the disaster in the market. Both regulators and policy makers were behind the curve, without having available any strategic plan. Also, poorly prepared governance increased even more the uncertainty of individuals, regarding the potential movements of the market, as they were not expecting this dramatic effect in the market. Therefore, as it was mentioned by Aristotle and Pericles, the soul should prepare their self for the difficult situation, even if in the short run everything goes well, in order to prevent this negative consequence.

4.5 SYSTEMIC BREAKDOWN IN ACCOUNTABILITY AND ETHICS

I will analyze this conclusion from the perspective of four notions: golden mean, hybris / ate / nemesis/ tisis, the importance of looking ahead and divine versus human.

First, the financial system was at a point where there were no limits. The financial system started having the largest market share, and institutions were engaged to fraudulent activities. There was no balance in their operations, which goes against the Golden mean mentioned by Aristotle. As brokers were attracted from quick profits, they were trying to influence individuals to borrow at a higher cost loan, in order to receive higher fees. Also, institutions did not disclosed significant information to investors that were buying securities, which increased even more their unethical operations. The financial system was in the edge of excess fraudulent operations, which resulted to a disaster.

Second, the lack of accountability and ethics of the financial system in the years of financial crisis, are associated to Hybris and Ate. Individuals, lenders and brokers were trying to benefit from the low regulatory system and loose lending standards. In other words, households were over borrowing knowing that they were unable to repay their loans in the long run. Institutions were taking more risk and through the increase in subprime lending and brokers were trying to increase lending to gain more money. This describes the arrogant behavior of both borrowers towards their ability to repay the loan, and lenders who overleveraged the institutions aiming to have higher profits in the short term. As it is known, when soul tries to exceed human power, it will result to Nemesis and Tisis, where God penalize their behavior. Catastrophic consequences of the financial system arose when the housing prices started falling and part of these subprime loans defaulted, affecting negatively the performance of organizations and the public welfare.

Third, the financial system was not taking into consideration the long term consequences of their activities. They were against the theory of Pericles and Aristotle, who mentioned the importance of preparation of the soul for the difficult times. In contrast, the financial institutions in the years leading to the financial crisis were involved in riskier and riskier operations. They refused any ethical limit towards investors, businesses and public, which then was damaged due to the catastrophic consequences. The financial sector was attracted from easy money, which affected its relationship with the rest market players. As institutions were engaged in riskier operations, they were not prepared for the difficult times that may come for example, by having high levels of capital. This affected even more their performance, once there was a breakdown in the market, which resulted to the bankruptcy of many financial institutions.

Fourth, the ethical and accountability failure can be explained through the tragedy of Antigone, and more specifically Creon. The financial institutions were giving the opportunity and motivation to low credit score clients to borrow money. Through these loans individuals accessed wealth, such as real estate, and give them the chance to access the “American Dream”. The financial industry was providing this type of loans to the public, as there was low regulation regarding lending standards, which can be related to Creon who was the one that was following the rules set by humans.

The financial sector continued to increase the subprime lending, as banks were reducing even more the lending standards, which resulted in a situation where loans were defaulting some months after the loan was provided. In the long run banks, in order to access more capital, due to capital shortage, and cover these losses, affected negatively both shareholders, depositors

and tax payers. As Sophocles explained through the tragedy of “Antigone”, the soul should always remember that there is something above the human. There are always unwritten laws which can be more important than the human law. The financial system was following in a way the human law, but they affected negatively the public welfare in the long run. In the case of the financial institutions, they were helping individuals to increase their wealth, however, once they defaulted, there was a negative domino effect in the whole economy. The human should always act with *sophrosyne*. As Antigone stated in the tragedy, people should follow the human law, but they should always remember the divine law that set by God since forever. Therefore, people need to care about the fellowmen and try not to affect them negatively through their actions, as this is the purpose of an ethical human being. Since, as it was found banks were not understanding that through their actions, they were going to affect negatively the public welfare.

PART C

Ελένη Χατζηπιέρου

CHAPTER 5: POLICY IMPLICATIONS

In order to avoid having the same difficult circumstances in the future, this study will suggest two policies that could be applied. The first is based on the Financial Literacy and the second on Classical studies.

5.1 FINANCIAL LITERACY

In recent years, there was an introduction of different courses regarding the Financial Education of the new generation. Universities around the world introduced to the young people and future consumers how the market reacts, justifying what risk is, value of money, investments, understanding the different price changes etc. This introduction to the financial world, will give the chance both to new generation and to the future consumers to be prepared and have a background for the challenges of the future.

It was proved through the financial crisis, that if there was a certain level of knowledge in the years before the crisis, some circumstances were going to be prevented. Since it was found that investors were not having the certain financial knowledge. An example could be the misunderstanding between the relationship of risk and return of an investment. People all over the world were investing in risky assets, without having in mind their actual exposure, which resulted in huge losses. Also, as it was highlighted through Congress Report, that there was a lack in financial education of the main players of the market. These players were not only investors, but also households or organizations, who were having inadequate information regarding the basic financial principles.

Moreover, during the last decade there was a rapid change from the traditional form of payments to digital. This resulted to the generation of the electronic activities based on online databases, which affected consumer's budgeting skills, since most of the everyday transactions are made either through the use of cards or online transfers. Another factor that affected the budgeting skills of people was the easier access to loans. Households in the years leading to the financial crisis, were not having the skills to understand how to balance their income with expenditure, making them more vulnerable to different changes in the economy, such as the changes in real estate prices of 2006. By developing a better understanding of the different financial products sold in the market, will reduce any future negative consequences.

An encouragement of this type of educational courses to new generation is likely to reduce the probabilities of similar circumstances in the future. This policy application has as target borrowers' side, where individuals will have the chance to understand the main principles of the market and how it works. This is an important tool for people nowadays, as they will be able to apply such knowledge in their everyday life and be aware of the challenges that may arise in the future.

Beyond this education, the different matters of importance and the specialization or dilatation of the soul regarding the financial market, were found to be some serious mistakes related to the basic principles and values taught through the centuries. As it was discussed in the previous section there were serious problems in terms of the philosophical perspective of the financial crisis. None of the main conclusions of Congress report was related to the principles taught by Ancient Greek philosophers. Therefore, it could be suggested to have a penetration of classical studies, to give the chance to individuals to change their way of thinking.

5.2 CLASSICAL STUDIES

Classical studies refer to the study of the Ancient Greek and Roman tradition. Through this educational courses individuals have the chance to understand the culture along with the Judeo-Christian tradition, established through the Western civilization. This type of learning courses could be taught in high schools, where students can build up a certain level of knowledge of the norms taught by ancient. As it was proved in our analysis, there were some serious mistakes based on the notions and values that were taught by philosophers many centuries ago.

This type of course does not need to be based on the memorization of the Ancient Greek. Instead, students can percept life based on the values and worldviews taught across the years. The understanding of the basic principles that were written by philosophers, tragedians, authors, and by the society in general, can change the way that people think about life. Moreover, people will have the chance to differentiate the modern life based on the ancient way of living, in terms of the norms and values of people, and try to engage some of these values in their everyday life.

Classical learning will give the chance to people to get to know the philosophy behind these norms, understand the culture and the way of thinking of Western civilization. Moreover, the thinking towards different situations is likely to change if people try to apply these sayings in the real world. Providing this type of education to schools or in colleges and universities, the young generation will be able to apply them in their everyday life. As it was proved through this paper, the classical studies are important for people worldview. Therefore, classical studies can

be taught through a broader educational scale, which will help the soul to have a certain knowledge of the values that different cultures follow through years.

Moreover, this type of educational courses could be learned by agencies. An example are regulators, the people that take the main decisions in the market, and set regulatory standards. It could be important for these individuals to get to know some of the main philosophical principles, taught by philosophers and apply them in their everyday life. Furthermore, it will be interesting to mention that these educational courses could be teach in the Banking Sector. As it was found through our analysis, there was lack of knowledge based on the values, from the employees of the banking sector. Therefore, an introduction of training courses based on the Ancient Greek and Roman tradition, will change the worldview of people based on the different values. Introducing these courses based on classical studies, individuals will know the main values and moralities taught centuries ago and have the chance to apply them in their everyday life.

The knowledge based on the Ancient Greek philosophy may not be applied by people in each situation, but it will be in the back of their mind. This means that people can act unconsciously based on the norms taught by Ancient. As it was proven through the Philosophical analysis in the previous sections, if people take into consideration some main principles taught through centuries from philosophers, they will act with sophrosyne.

PART D

Ελένη Χατζηπιέρου

CHAPTER 6: CONCLUSION

The financial crisis of 2007 was an economic event that will be discussed through the decades, since it affected different countries and economies all over the world. The main causes of this crisis were explained through different reports, but there are still questions without any answer. The first main cause of the crisis was excessive subprime lending, where banks were providing loans to low credits score clients. The second cause was the low supervision and regulation, which resulted to an unprotected financial system. The third cause was securitization, where organizations were sampling the different loans (based on real estate) and were selling them to investors worldwide, without providing sufficient information on the risk that they were actually having.

In 2011 the National commission of the Federal Government of United States published a report explaining the financial crisis and highlighting its five main conclusions. The first was the failure of the regulatory and supervisory system. The second is the incorrect corporate governance and risk management of the financial institutions. The third was the excessive borrowing and investment in risky assets by both consumers and banking sector. The fourth is the late response of the government that increased the panic in the market. The fifth was the systemic breakdown of the accountability and ethics of the financial system.

The main research question of this paper is the identification of the main conclusions of the financial crisis through a philosophical perspective. The Western civilization has developed a culture across the years based on the moral values taught across the centuries. This paper identifies the main conclusions of the financial crisis, as they were mentioned in the Congress Report and explains them through four philosophical notions.

The first notion that is used for the explanation of the financial crisis is Golden mean, taught by Aristotle. The second is based on the world view of Greek culture where they believe that after an arrogant behaviour there will be a punishment, also known as hybris, ate, nemesis and tisis. The third is the importance to be prepared for the difficult circumstances highlighted by Pericles through his burial speech and by Aristotle through Nicomachean Ethics. The fourth is based on the understanding that human should follow both the human rules but more importantly the divine law. This belief was portrayed by the Greek tragedian Sophocles, through his tragedy called "Antigone".

Through our discussion it was found that in the years leading to the financial crisis, there are different philosophical problems in terms of handling different situations. This gives us the chance to suggest some policies that could be applied in the future in order to reduce the chance of a difficult circumstance. The first suggestion is Financial Literacy that is introduced in recent years, which will give the chance to consumers to understand the main elements of the market. The second is based on the Classical Education, where people can learn in a broader way the values taught by Ancient through courses and apply them in their everyday life.

Understanding the way that values were highlighted, will give the chance to people apply them in their everyday life subconsciously.

To conclude, this paper explains the financial crisis of 2007 from a different point of view. There is an explanation of the philosophical problems that took place, in the years leading to the financial crisis. Finally the study suggests two policies that can be used in the future in order to reduce the chances of a similar situation. The first is Financial Literacy and Classical Education that will help people to change positively their worldview.

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