Chapter 8


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ABSTRACT

The purpose of this chapter is connected with the rationale for the approach to understanding shock as an economic phenomenon in terms of its nature and forms of manifestation, the conditions of aging and the factors of realization, the mechanism of self-development, and the consequences for the sustainability of the national financial and economic systems. The author’s interest is initially aimed at identifying the circumstances in which the system loses its ability to restore sustained structural relationships and to preserve integrity in the sphere of national finance and economy. An approach allowing the identification of the transmission mechanisms connected with market exchange that can generate marginal states of economic structural links as necessary and sufficient conditions for the destructive shocks impact on them is identified. Based on the obtained theoretical conclusions, it becomes possible to model the marginal states of different structural relationships and evaluate their impact on the sustainable state of economic systems as a whole on the base of shock theory.

INTRODUCTION

This chapter is aimed at identifying shocks as an economic phenomenon, which allows not only to anticipate the formation of necessary and sufficient conditions for its destructive impact, but also to use it for the purpose of a qualitative restructuring of the economic system, for example, in the context of expanding the potential of its growth. The synergistic effect of the shocks’ theory is great, because it allows to get closer to understanding the self-development of economic systems, the role of financial intermediaries in it, the mechanisms for the emergence of the financial bubbles at the national level and their ability to influence other countries of the world, the role of impulse, called shocks as a trigger of the above phenomenon. This approach is aimed at understanding economic and financial crises by shifting

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the emphasis on research into the causes, mechanisms and significance of price shocks in implementing the laws of self-development of economic integrity at various local levels. The latter makes it possible to substantiate theoretically the effective practical actions of national mega-regulators in the context of the financial bubbles aging and the price shocks’ emergence.

The continuing urgency of all the problems mentioned above is confirmed by the words of experts expressed both during the global financial crisis (2007-2008) and ten years later. The studies of the following authors serve as a very important base for preparing this chapter: C. Perez (2009); C. M. Reinhart, and K. S. Rogoff (2009); Jaromír Beneš, İnci Ötker-Robe, and David Vávra (2009); Staff Team from the Fiscal Affairs Department IMF (2009); Jan Hatzius, and et al. (2010) as well as many others. The results of a decade researches since the last global financial crisis devoted to the self-development of national and global economies, to the role of financial intermediaries, including the nature and forms of manifestation of financial shocks, can be summed up in the words of Valerie Cerra (2018, P. 4), Assistant Director in the IMF’s Institute for Capacity Development: “….During the past decade, a lot of good work has been done to incorporate financial frictions into our economic models. … Some economists also underestimated the role of the financial sector before the crisis.”

In other words, ten years after the last global financial crisis, not all the questions about it have been answered. According to V. Cerra (2018, P. 4): “We still don’t understand very well why transitory shocks from the financial sector or elsewhere can lead to a persistent fall in productivity, employment, and investment.” This conclusion is confirmed by other researchers: M. Schularick, and A. Taylor, A. (2012); R. Sahay, and et al., (2015); O’Sullivan, and et al. (Eds.) (2015); Cerra, Valeria, and Sweta C. Saxena, (2017); B. Sergi, F. Fidanoski, M. Zioło, and V. Naumovski (Eds.), (2018); and etc.

As a result it should be stated that it is about ten years since the onset of the global financial crisis, but some fundamental questions connected with it remain open. A misunderstanding of some aspects related to the global financial crisis of 2007–2008 and of subsequent slowdown of the global economic growth forced the author to focus on the study of the nature of financial shock, which served as a trigger in multiplying the phenomenon of the breakdown of the structural transnational relations in the late 2000s. The need for a systemic interpretation of the phenomenon of shock (impulse) in the context of the self-development laws of national economies was generated by ideas that remained outside the attention of theorists for many decades. Back in 1933, Ragnar Frisch (1933) in his famous work “Propagation Problems and Impulse Problems in Dynamic Economics” substantiated the “impulsive-propagation” approach to modeling the macroeconomic business cycle. In addition, at the beginning of the last century, such coryphaeus of Russian science as N.D. Kondratiev (1984), E.E. Slutsky (2010) and other representatives of the famous Kondratiev’s Conjuncture Institute, linked economic shocks with the most important areas of research. So, in particular, E.E. Slutsky (1937) was one of the first to question the acceptability of deterministic models for explaining economic cycles. He substantiated the hypothesis that it was precisely random effects - “impulses” (or shocks – as they are called today) on the economic system - that serve as the beginning of a cyclical model of its reaction to external influence. In the late 50s of the last century Irma and Frank Adelman (1959) tested the impulse-propagation approach in the empirical studies of economic fluctuations. It turned out that the amplitude and duration of economic cycles caused by simulated external impulses, surprisingly exactly repeated those that actually took place in the United States.

In addition, we should mention the authors and their scientific publications well-known in the world devoted to some aspects of the above problems: Ch. Kindleberger (1996); H. P. Minsky (2008); Garry J. Schinasi (2006); likka Korhonen (2007).