



BI Norwegian Business School - campus Oslo

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Master Thesis

Component of continuous assessment: Forprosjekt, Thesis
MSc

The 2008 Financial Crisis

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Master of Science in Business, major Finance

Title:

The 2008 Financial Crisis

Name of supervisor:

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Preliminary Master Thesis Report

Introduction to the research question

The objective of this thesis will be to study the short and long term effects of the 2008 financial crisis on Norwegian banks and their respective borrowing firms.

The financial crisis of 2008 caused significant adverse effects and negative growth in several economies. The crisis came because of several causes, e.g. housing boom, monetary excess and inflation caused by consistently low interest rates. The crisis was triggered by the bursting of the real estate bubble in the US and market by the default of Lehman Brothers. At the time of the default, the interbank money market froze. This led to a liquidity crisis with huge strains on bank's capital reserves. Due to asymmetric information, the different financial institutions had little knowledge about which bank was sitting on what share of the huge amount of previously considered top rated assets, which caused further distrust in the money market. With a fresh memory of the Scandinavian bank crisis in the 90s and the 2008 financial crisis, regulators are trying to limit the probability - and the extent of future crises. Having learned from the Scandinavian bank crisis, Norwegian banks were better equipped to handle the crisis relative to comparable economies.

Therefore, this will be a study of how the financial crisis affected Norwegian banks and how this effect is transferred to the banks' respective borrowing firms. To provide a better understanding of exogenous shocks on banks, our thesis will explore the financial crisis and the factors contributing to bank performance. Our thesis will explore both short and long-term effects, with a focus on the long long-term effects. Our thesis also explores a highly important subject in economics. Because banks are key players in providing liquidity, bank distress has enormous implications for the economy. Our motivation will be to better understand the link between negative shocks on banks and the implications on firm performance with regards to the firms return on assets and investment growth. More importantly, our thesis will document the underlying factors affecting bank performance in Norway during the crisis.

In other words, the aim of this master thesis is to contribute to this field by investigating the research question:

“In what way has the financial crisis, in 2008, influenced liquidity management in Norwegian banks?”

Literature review

We will divide our literature review in two sections. In the first section, we will elaborate on the role of banks, bank capitalization and shocks on banks. The second section will focus on the lending relationship between banks and the banks' respective borrowing firms. We will emphasize on the transmission of shocks from banks to the borrowing firms. We will connect the current literature to findings and observations made by Norges Bank.

Data collection

We will collect data from Datastream, Centre for Corporate Governance Research (CCGR) and Brønnøysundsregisteret. We will also use Stata to tie firms to their respective main bank. In our analysis, we will analyze the whole sample and separate banks into low, medium and high performance groups. Firms will be grouped into categories dependent on whether their main bank has a low, medium or high performance.

We will use the data from the database called CCGR (Centre for Corporate Governance Research). There, we will find the accounting data for both banks and firm. CCGR provides us with data that is tailored to our thesis. CCGR focus on high quality Norwegian data, which give us access to non-listed firms in addition to listed firms. We use CCGR to find the data on the different firms and industries. The data is separated into financial and non-financial firms. In addition, we will use Datastream to find daily stock returns and stock indices. Brønnøysundsregisteret is used to find information of the firms' main bank. When running the data preparation and regressions, we use a combination of STATA and Excel. We will write a separate program in Stata that lets us connect each firm to their respective bank. Submitting information regarding main bank is optional and this will therefore not available for all firms.