

Lehman Brothers Scandal

A photograph of an office environment with several people working at desks. In the foreground, a woman with curly hair is seen from behind, sitting at a desk with a laptop. To her right, another person is partially visible, also at a desk with a laptop. The office has white cubicle walls and various office supplies like pens and a water bottle are visible on the desks.

Introduction

Lehman Brothers is perhaps one of the most infamous scandals of recent history which happened to be the largest bankruptcy of a financial services company in the U. S. Dealing with an investment bank that had been in existence for more than 150 years, it came into difficulties during the financial crisis in 2008 that affected the world economy adversely. This was partly caused by getting involved in high risk–subprime mortgage business and corporate governance issues. The following article focuses on the Lehman Brothers’ scandal and provides a case solution to analyze its cause of collapse.

Causes of the Collapse

Lehman Brothers was heavily invested in mortgage-backed securities (MBS) and collateralised debt obligations (CDOs) which were underpinned by subprime mortgages. As the value of housing lowered considerably, these assets suffered a huge blow and that literally translated into losses in the company.

Also, the firm was a highly leveraged one, which means that the firm had to finance most of its investments by borrowing funds, and thus enhancing its vulnerability.



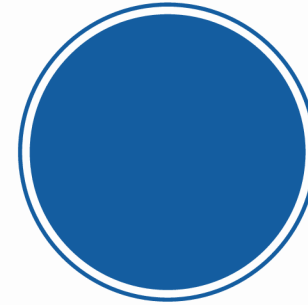
Consequent effect on the World Economy

Lehman Brothers' failure was followed by an erosion of confidence by investors and resulted to credit crunch in the global systems. It led to chain bank failures, bank bailouts and this was followed by a global strong recession that impacted million people in the world. The consequences of the scandal brought into attention the issues of tighter regulation and change in the policies of the financial sector.

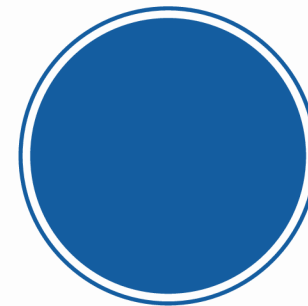
CONCLUSION

The Lehman Brothers' case is one of the most significant examples of learning the weaknesses of the world's economic situation. Deciding for reconstruction, but more so looking at the causes as well as the effects of the collapse allows one to make some conclusions and learn something new to avoid the reoccurrence of such catastrophes.

RESOURCE



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