



Toward a New Paradigm for Corporate Financial Management in the Wake of the Global Financial Crisis

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Abstract: In this paper, we discuss several phenomena from the global financial crisis that challenge the validity of the assumptions of modern finance theory and the paradigm underpinning the theory. We identify some shortcomings in the prevailing paradigm and suggest working toward a new paradigm in financial economics with recommendations. We suggest top management of companies should approach financial decision making in a more philosophical rather than a mechanical mindset.

Keywords: global financial crisis, Corporate Financial Management.

1. Introduction

In the wake of the global financial crisis, pundits point out that economic models have not been working properly since the beginning of the U.S. subprime implosion in 2007, leading to the financial meltdown in 2008. To their surprise, economic and finance scholars have been particularly silent on the implications of the financial crisis after the crisis, implying business as usual. To their own defense, many in Wall Street and in the academe have considered the 2007-8 financial crisis an aberration, a rare occurrence in the probabilistic sense in a long period of time since the 1930s [Bianchi (2008)]. The financial crisis of 2007-8 is indeed a rude awakening

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