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# Financial Intermediary Leverage Spillovers

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## Abstract

Using quarterly data for the United States (over the period from 1983 to 2014) and state-of-the-art financial econometrics, we explore for spillovers and interactions among the leverage levels of broker-dealers, commercial banks, and shadow banks and their volatilities. The key contribution to the literature is the estimation of a trivariate VARMA, GARCH-in-Mean, BEKK model that allows for the interdependence among the three leverage series and their volatilities. We find that broker-dealers leverage is procyclical, that there are significant spillover ARCH and GARCH effects across financial intermediaries, and that the leverage of broker-dealers is a good predictor of future economic activity.

*JEL classification:* C32, C58, E44.

*Keywords:* Leverage, Volatility, VARMA, GARCH-in-Mean model.

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