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Identifying Contagion: A Unifying Approach

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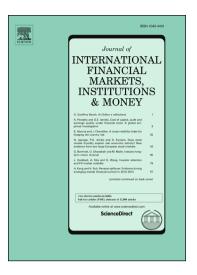
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Identifying Contagion: A Unifying Approach[#]

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Abstract

We propose a new approach to identify financial contagion. Our method accounts for possible trends in market linkages, and allows a description of the contagion process over the crisis period. Results for a sample of 25 stock markets show that the impact of the 2007-9 crisis on domestic markets from financial shocks originating in the US was largely heterogeneous. Markets are found to experience the crisis differently, regardless of whether these effects are found to be contagious. Contagion was also less common than could be expected based on a more commonly employed model, which assumes constant market interdependencies within subperiods.

Keywords: Finance, Risk analysis, Stock markets; Financial contagion; Financial crises

JEL Classification: G0; G15

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