A Network Model of Super-Systemic Crises

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Lim Tay Boh Seminar Room (AS2 03-12)  
National University of Singapore  
1 Arts Link, Singapore 117570

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Although advanced country financial systems have weathered numerous shocks in recent years, the events triggered by the sub-prime crisis of August 2007 have been “super-systemic” in scope, enveloping financial institutions across the major economies as well as far away Iceland and New Zealand. In this paper, we apply network techniques to develop a framework for analyzing financial contagion that isolates the probability of contagion from its potential spread. Our results suggest that modern financial systems may be robust-yet-fragile in nature. Under plausible assumptions, the greater connectivity implied by new financial instruments, such as credit derivatives, reduces the likelihood of contagion. But the impact on the financial system, in the event of problems, may be on a significantly larger scale than before.

Prasanna Gai is Professor of International Economics in the Crawford School and a Senior Research Associate of the Financial Markets Group, London School of Economics (LSE), and the Centre for Applied Macroeconomics (CAMA). He is an academic consultant on financial stability matters to the Bank of England and an academic visitor to the Bank for International Settlements. Prior to joining Crawford, he was Senior Adviser at the Bank of England, most recently responsible for directing the Bank’s research work on systemic risk and editing the Financial Stability Review. Prasanna has also been a Fellow in Economics at the Research School of Pacific and Asian Studies, ANU, a visiting lecturer at the University of Oxford, and a visiting fellow at the Hong Kong Institute of Monetary Research.

Seating is on a first-come-first-served basis and admission is free.

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