



Finance and Economics Discussion Series: A Framework for Assessing the Systemic Risk of Major Financial Institutions

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Finance and Economics Discussion Series: A Framework for Assessing the Systemic Risk of Major Financial Institutions (Paperback)

By Xin Huang

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****. In this paper we propose a framework for measuring and stress testing the systemic risk of a group of major financial institutions. The systemic risk is measured by the price of insurance against financial distress, which is based on ex ante measures of default probabilities of individual banks and forecasted asset return correlations. Importantly, using realized correlations estimated from high-frequency equity return data can significantly improve the accuracy of forecasted correlations. Our stress testing methodology, using an integrated micro-macro model, takes into account dynamic linkages between the health of major U.S. banks and macrofinancial conditions. Our results suggest that the theoretical insurance premium that would be charged to protect against losses that equal or exceed 15 percent of total liabilities of 12 major U.S. financial firms stood at \$110 billion in March 2008 and had a projected upper bound of \$250 billion in July 2008.



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