

Systemic Risk in Europe

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Abstract

Systemic risk may be defined as the propensity of a financial institution to be undercapitalized when the financial system as a whole is undercapitalized. In this paper, we investigate the case of non-U.S. institutions, with several factors explaining the dynamics of financial firms returns and with asynchronicity of time zones. We apply this methodology to the 196 largest European financial firms and estimate their systemic risk over the 2000-2012 period. We find that, for certain countries, the cost for the taxpayer to rescue the riskiest domestic banks is so high that some banks might be considered too big to be saved.

Keywords: Systemic Risk, Marginal Expected Shortfall, Multi-factor Model.

JEL Classification: C32, G01,G20, G28, G32.

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