

**Measuring Inter-Industry Financial
Transmission of Shocks
by
Daniel Paravisini**

**Discussion by Matt Pritsker
Federal Reserve Board**

Center for Financial Research 2006 Fall Workshop

Idea and Contribution

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Measures of LFP

- ▶ Should condition on indicators of whether lenders are likely to be constrained in lending.
- ⇒ Should not condition on losses alone, but on the financial health of the bank and how it is affected by the losses.
- ⇒ Need to condition on “abnormal losses.”
- ▶ Conditioning on bank size and liquidity go in appropriate direction, but more could be explored.
- ▶ Additional analysis on role of credit derivatives usage is needed, i.e. is it capturing hedging, is it correlated with financial health of the banks, or with outliers in the data?

Substitute Lenders

- ▶ The effects of lender distress on borrowers depend on borrowers ability to find substitute sources of funds.
- ▶ **Example:** specification with one substitute lender:

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- ▶ Failure to account for substitution may generate time and state-dependence in β estimates.
- ▶ **Example:** Estimating relationships at a time when the stock-market is depressed may also introduce time-dependence.

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▶ Suggestion: Do a monte-carlo study of how imputation affects inference.

▶ Suggestion: Do specification tests on the imputation procedure.

Data Description

Table 1: Fraction of Bank Lending to Largest Defaults during 2002

		Fraction of Loan Portfolio to	
2002q1	stat	Defaulted firms	Communications Industry
	n	36	35
	Mean	.0170	0.0459
	SD	.1161	0.0504
	Median	0.0005	0.0088

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Remarks:

- ▶ Exposures to defaulted firms are highly skewed.
- ▶ Want to know more about largest exposures.
- ▶ Want to know relation of largest exposures to bank health.

Suggestions:

1. Plot the distribution of the exposures.
2. Cross-tab of lender exposure with borrower leverage.
3. Cross-tabs of exposures with bank health indicators.
4. Cross-tabs of exposures with derivatives usage indicators.

Wrap-Up

- ▶ Paper has a very good idea.
- ▶ Paper is very new.
- ▶ More needs to be done with the empirical analysis.