Systemic Risk Shift

Fan Yang *[1] and Chen Zhou †[2]

[1]University of Waterloo
[2]Erasmus University Rotterdam

Abstract

In the financial system, systemic risk rises from interconnectedness among financial institutions. Empirical studies have shown that financial institutions tend to behave more homogeneously. In this paper, by modeling asset returns with heavy tailed distributions and having a flexible dependence structure, we examine the phenomenon of how diversification achieved at individual institutions leads to systemic risk. Real data analysis is provided to support our findings.

*E-mail address: fan.yang@uwaterloo.ca
†E-mail address: zhou@ese.eur.nl