



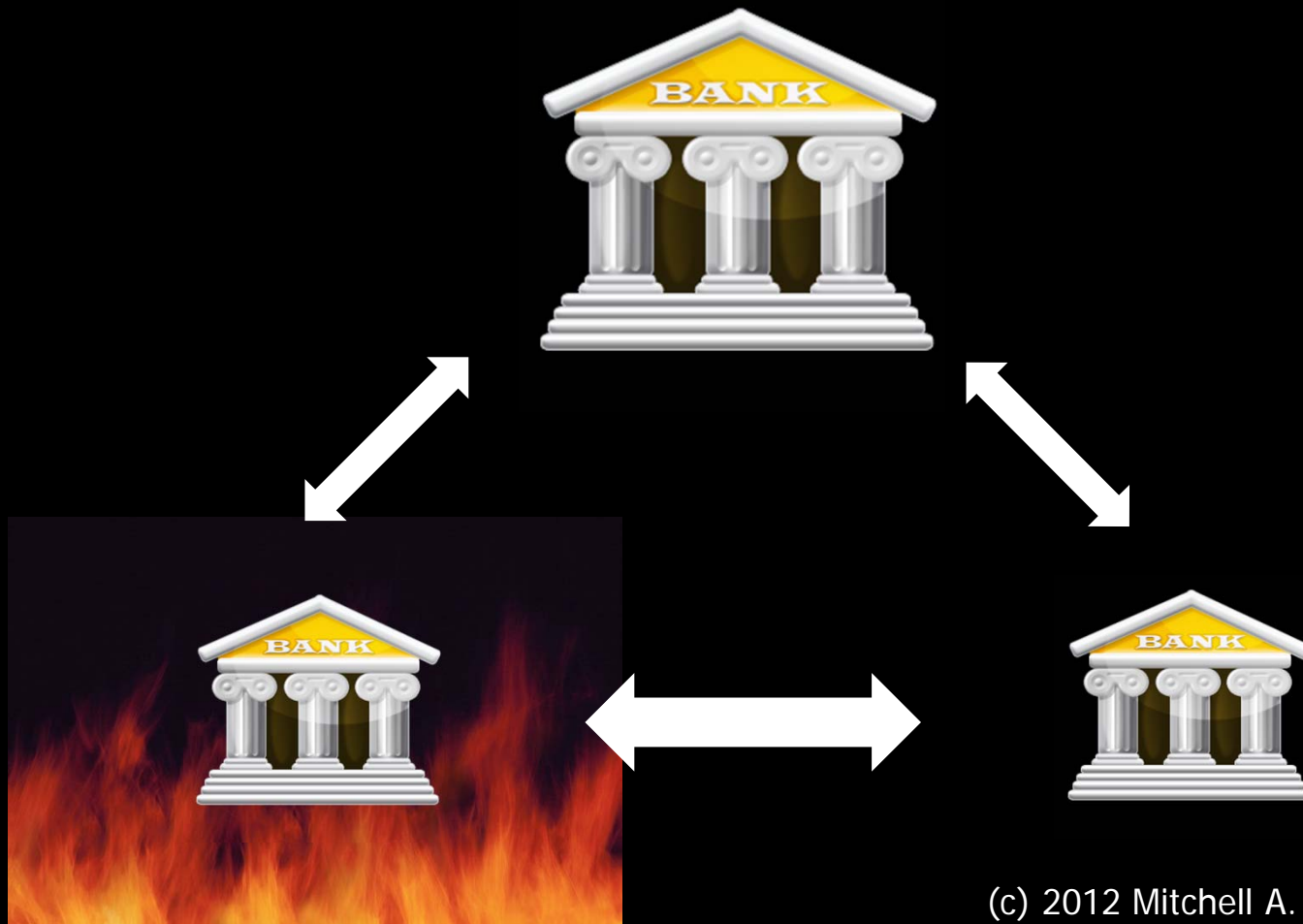
Banking Market Integration and Interconnectedness

Discussion by

Mitchell A. Petersen

Kellogg School of Management &
National Bureau of Economic Research

Banking Market & Financial Market Integration





Connections Between Markets

- Capital Market Flows & Capital Constraint
 - External capital markets (to highest value)
 - Internal capital (to whose highest value)
- Informational Flows
 - Low investment opportunities where shock
 - Low opportunities elsewhere?

Liquidity Management of U.S. Global Banks: Internal Capital Markets in the Great Recession

Cetorelli & Goldberg

- Economic Shock: Great Recession
- Allocation of Capital Globally
 - More exposed banks: Greater response
 - Move \$ from source to projects
 - Reverse with second shock
 - Magnitude of reversal?
- M&M World: Fund all +NPV projects

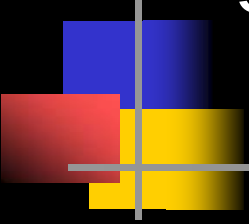
Liquidity Management of U.S. Global Banks: Internal Capital Markets in the Great Recession

Cetorelli & Goldberg

- M&M World: Fund all +NPV projects
 - External capital market
 - Internal capital market
- Integration and Stabilization
 - "From "host country" perspective, i.e. a country that allows foreign banking activity, macroeconomic transmission from foreign banks may be less a function of its overall openness and more related to the particular distribution of foreign banks engaged in their economy, the balance sheets of those foreign banks, and the mode of operations within the country."

The Cross-Market Spillover of Economic Shocks through Multi-Market Banks

Berrospide, Lamont & Keeton

- 
- Economic Shock: Housing Price Collapse
 - Not Simple Capital Supply: Mortgages
 - No response from non-mortgage losses
 - Bank capital doesn't matter
 - Securitization: Increases with losses
 - Mortgage lending
 - Mortgage losses reduce lending elsewhere
 - Effect is small if other region is small

The Cross-Market Spillover of Economic Shocks through Multi-Market Banks

Berrospide, Lamont & Keeton

- Information story
 - Banks have less capital: Allocation?
 - Market specific information (Las Vegas?)
 - Economy wide information

Financial Integration, Housing and Economic Volatility

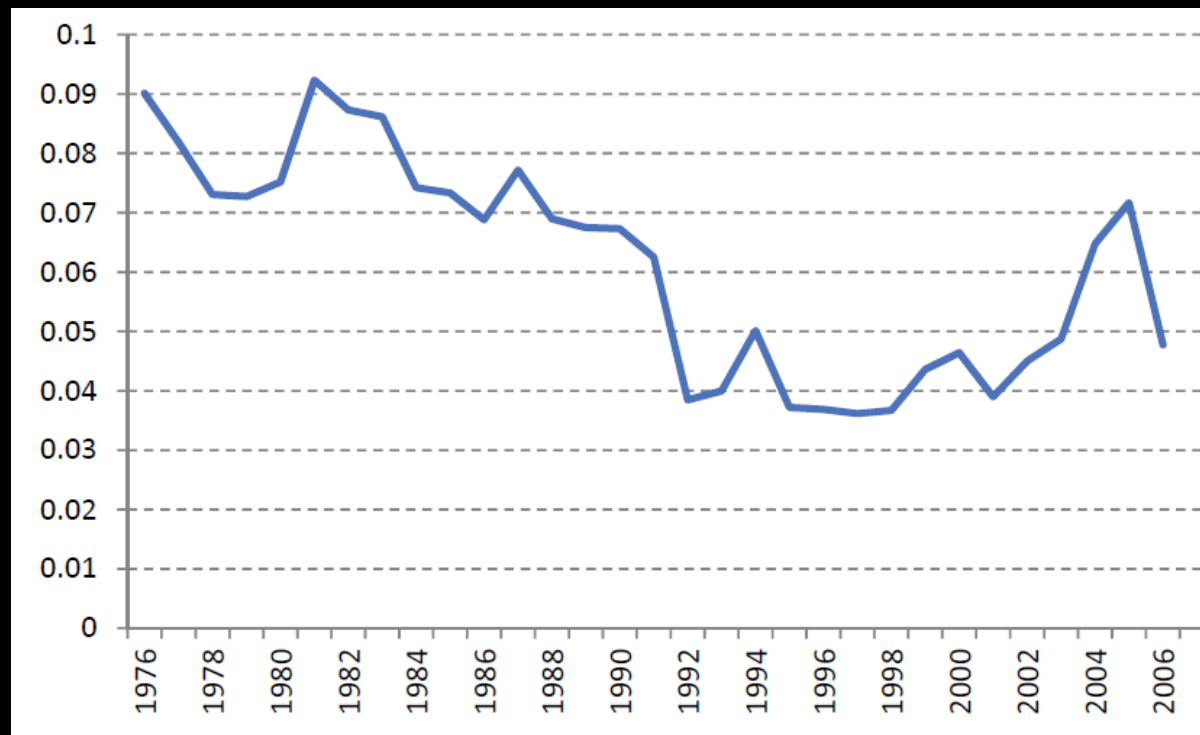
Loutskina & Strahan

- Economic Shock: Housing Price Collapse
- Demand or Supply
 - Supply shocks \rightarrow reduces σ
 - Demand shocks \rightarrow can increase σ
 - Credit flows lead to more construction (low σ)
 - Steep supply curve \rightarrow greater σ
- Capital as a Constraint on Bubbles

Financial Integration, Housing and Economic Volatility

Loutskina & Strahan

- Has Housing Volatility Increased?



(c) 2012 Mitchell A. Petersen

The Valuation Effects of Geographic Diversification: Evidence from U.S. Banks

Goetz, Laeven, & Levine

- Economic Shock: Δ Geographic Diversity
- Micro Effect of Geographic Diversification
 - Diversification destroys value
- Cost of Monitoring
 - Geographic reach / Size
 - Complexity: Soft vs. hard information

The Valuation Effects of Geographic Diversification: Evidence from U.S. Banks

Goetz, Laeven, & Levine

- Empirical Design and Findings
 - OLS → Little to no effect
 - Instrumental variables: Deregulation
 - Diversification → Value destroying
 - Opportunities for div → Destroy value
 - Actual diversification → Creates value
 - Deregulation's other negative effects

Integration and Stabilization Good For Whom?



- Integration: Simple Case
 - Capital flows to highest value
 - Risk (idiosyncratic) is reduced
 - Assumes correct incentives [LS & GLL]
- Capital Supply and Demand
 - Capital is scarce, but scarcer elsewhere
 - Great inv oppt, but better elsewhere
- Comparison to International Trade



Questions from the Audience
