

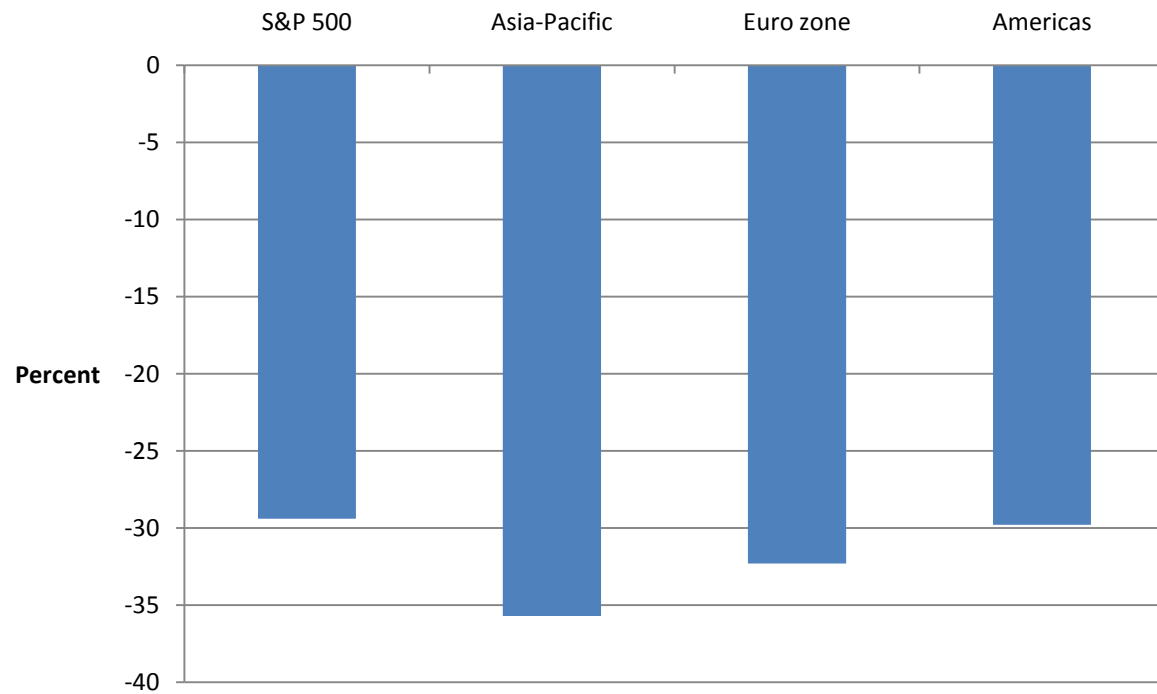
Contagion, revisited

Paul Krugman

10/6/08

Synchronized sinking

Stock price changes over past year



Conventional view of linkages

Home GDP

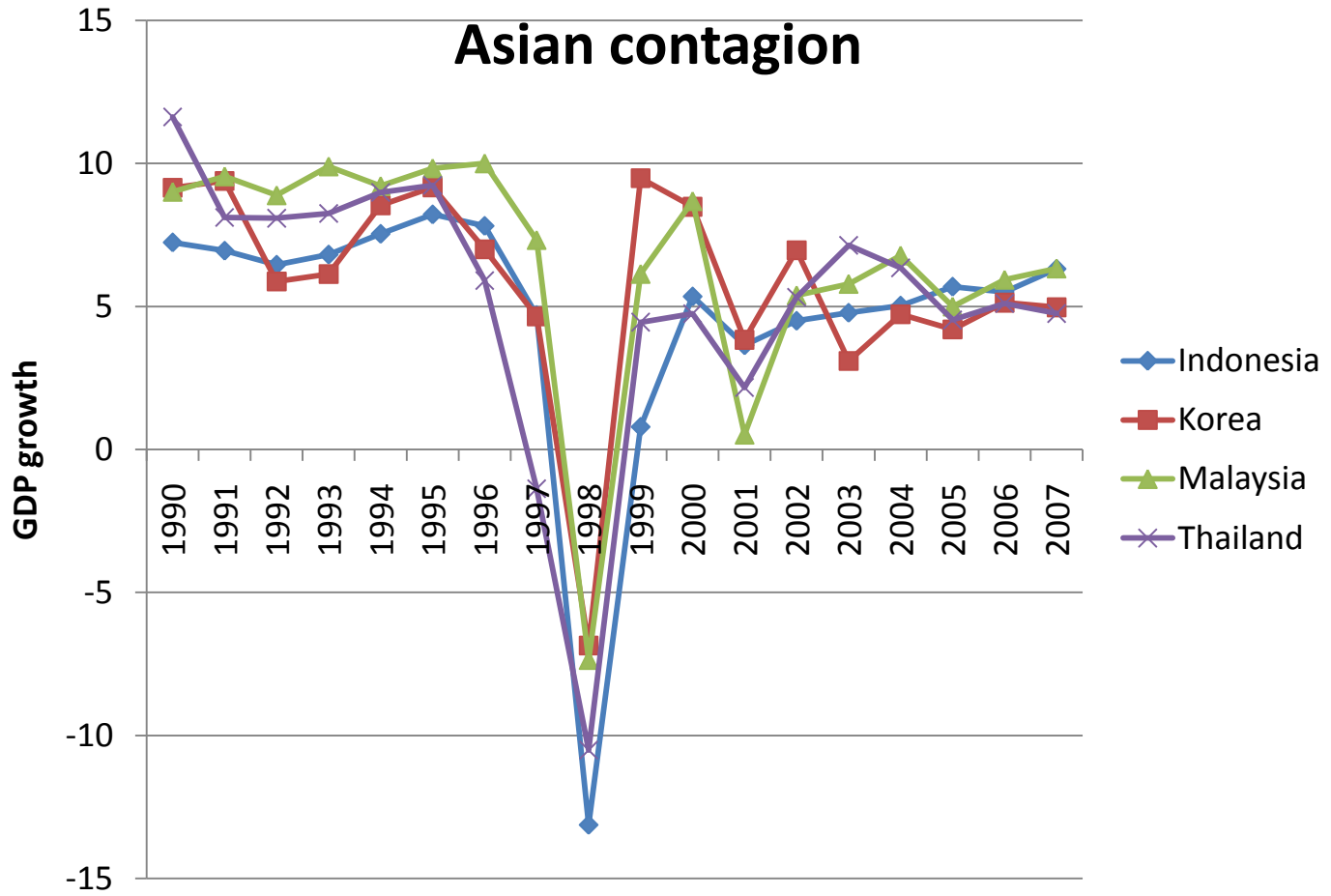


Home imports = ROW exports

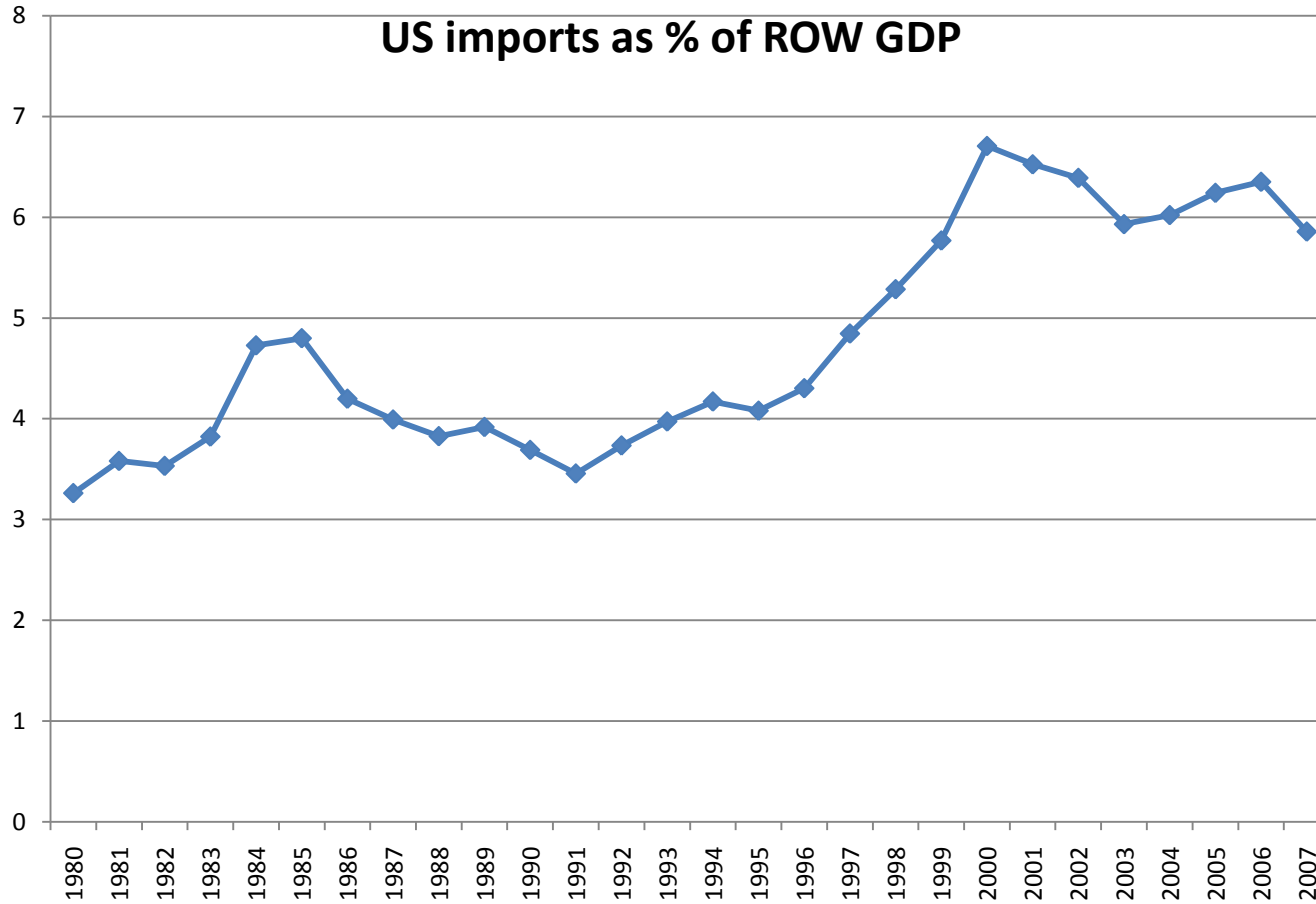


Foreign GDP

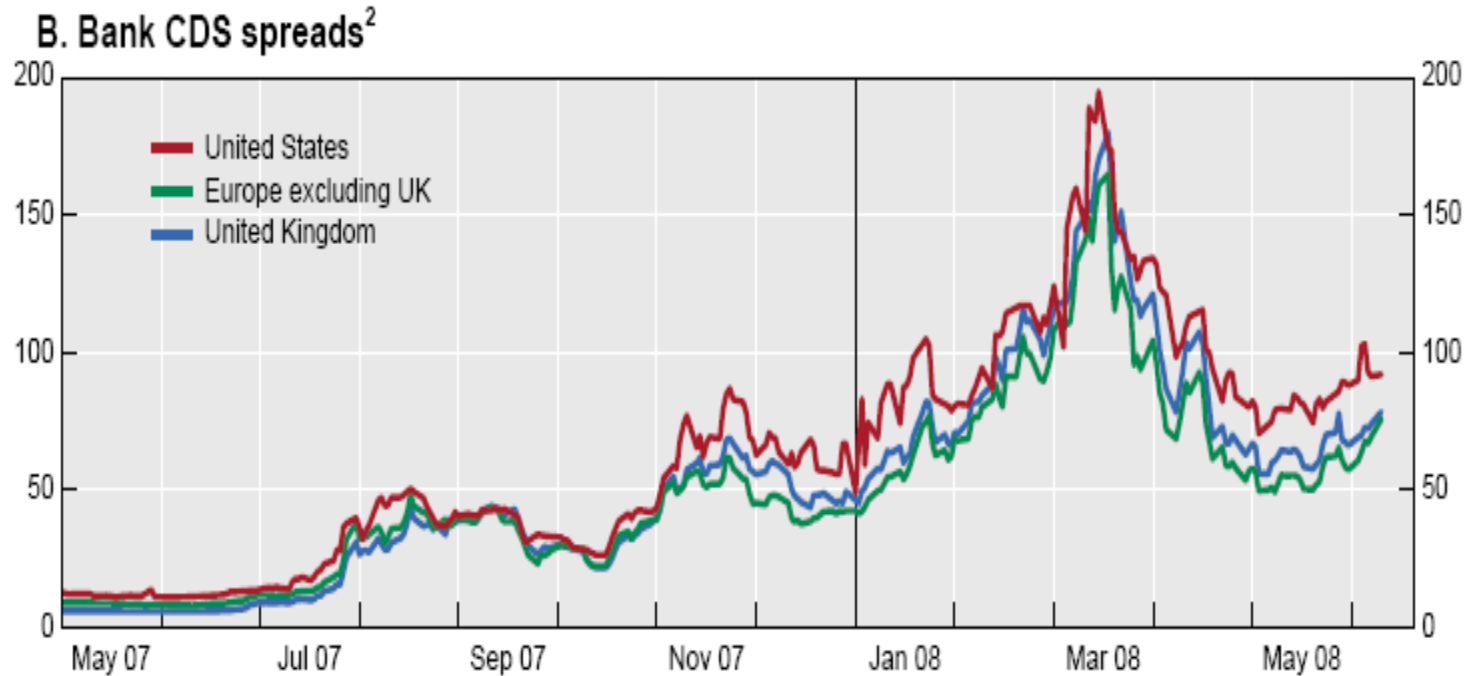
Asian contagion



Trade linkages are not enough

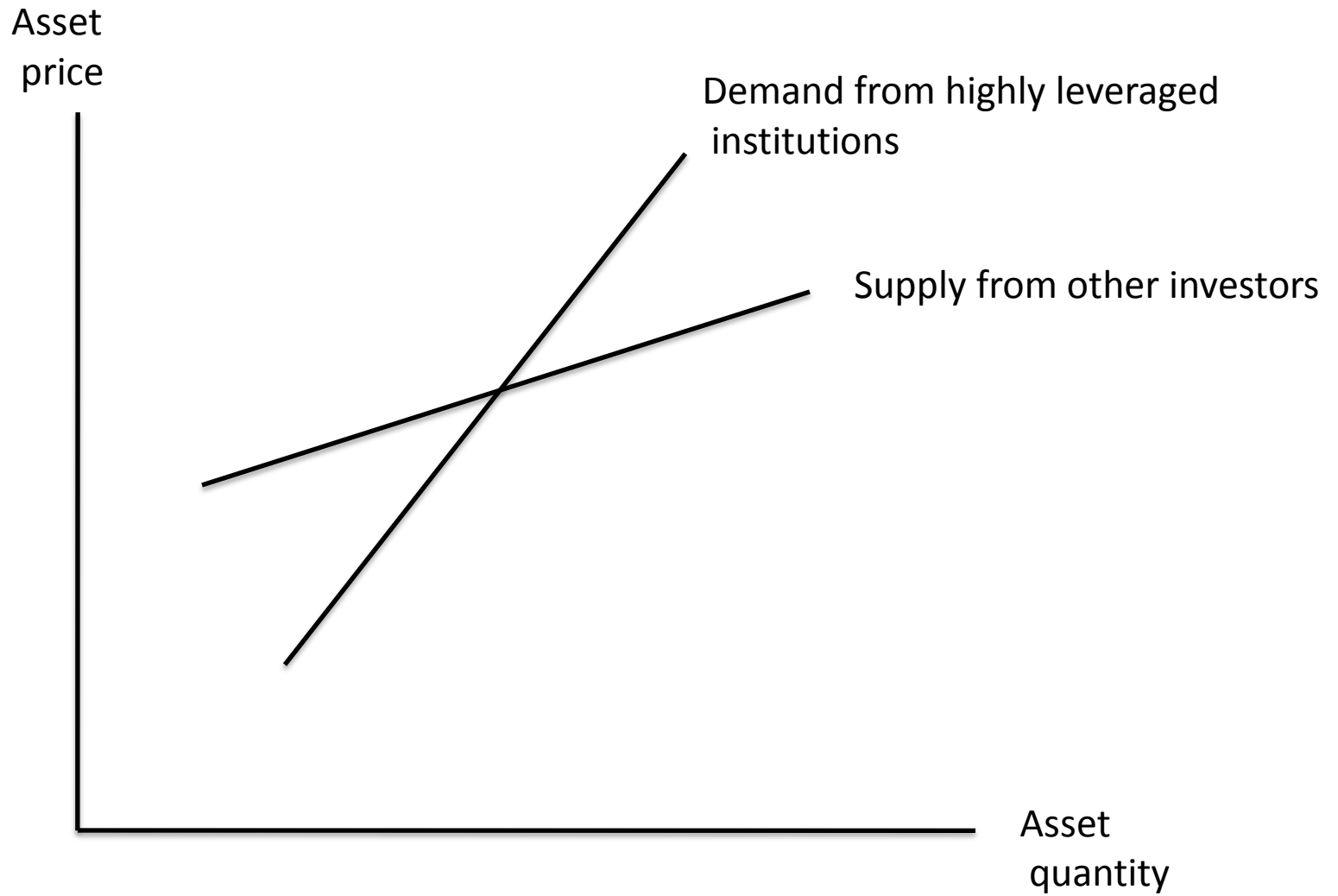


Instead, the key channel seems to be via
balance sheets of financial intermediaries

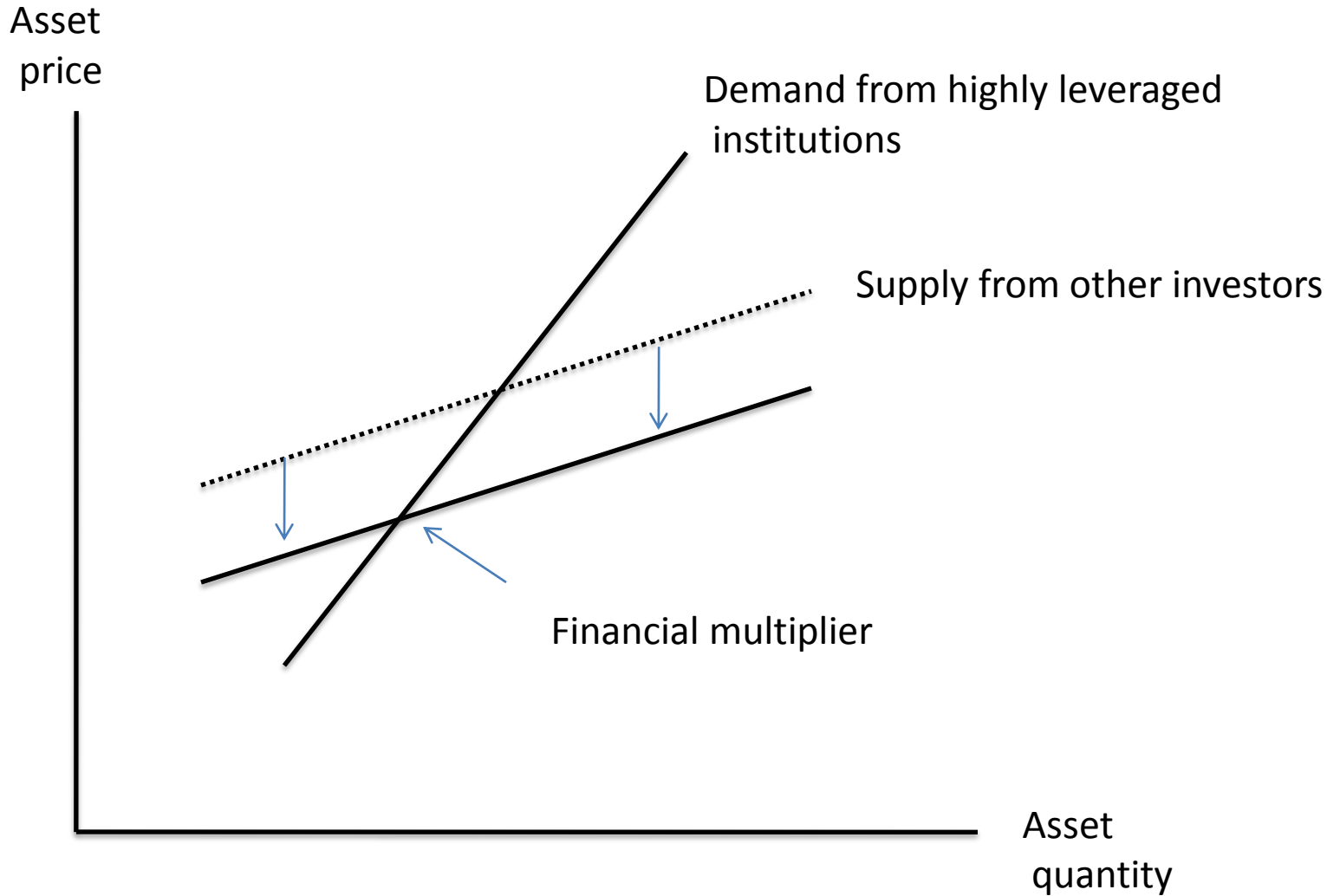


From Knight 2008

A crude view of the situation



The shock



To the extent HLIs are international investors, this propagates

New view of linkages

Home asset prices



Capital of HLIs



Demand for foreign assets



Foreign asset prices

Has financial globalization increased the risks of global crises?

