

Discussion of “Slow Capital, Fast Prices: Shocks to Funding
Liquidity and Stock Price Reversals” by Stefan Gissler

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Occidental College

Workshop on Central Banks and Crises – Historical Perspectives
July 8, 2015

Summary

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- Exogenous shock

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- Firms connected to Danatbank (Treatment Group) vs Firms connected to other banks (Control group)

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- Firms are comparable
- Illiquidity surges for firms connected to Danatbank
- Increase in volatility of daily stock returns

Figure 2: **Order imbalances: Deutsche Bank vs. Danatbank firms.** This graph plots the average percentage of stocks with supply order imbalances for the current and the last two days between 1 November 1930 and 1 June 1931. Stocks are either from firms connected to the Deutsche Bank or firms connected to the Danatbank. The vertical line represents 11 May 1931.

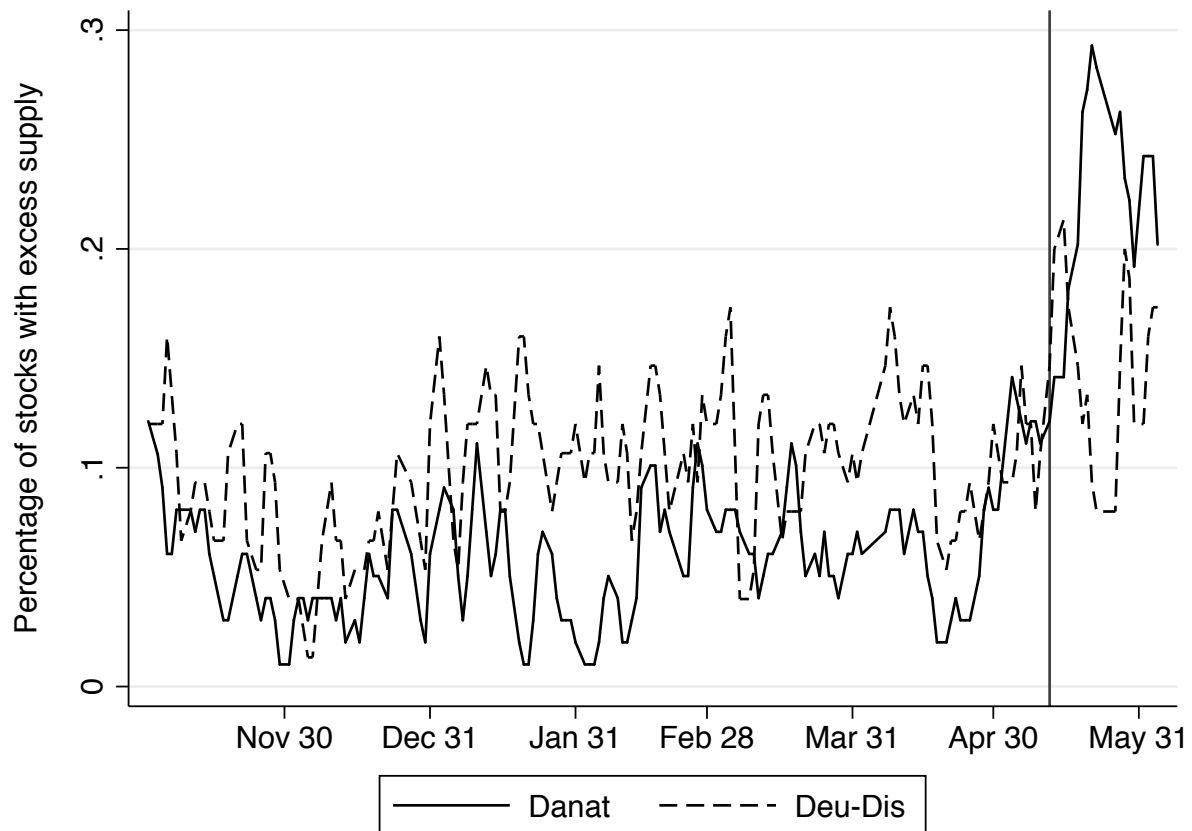
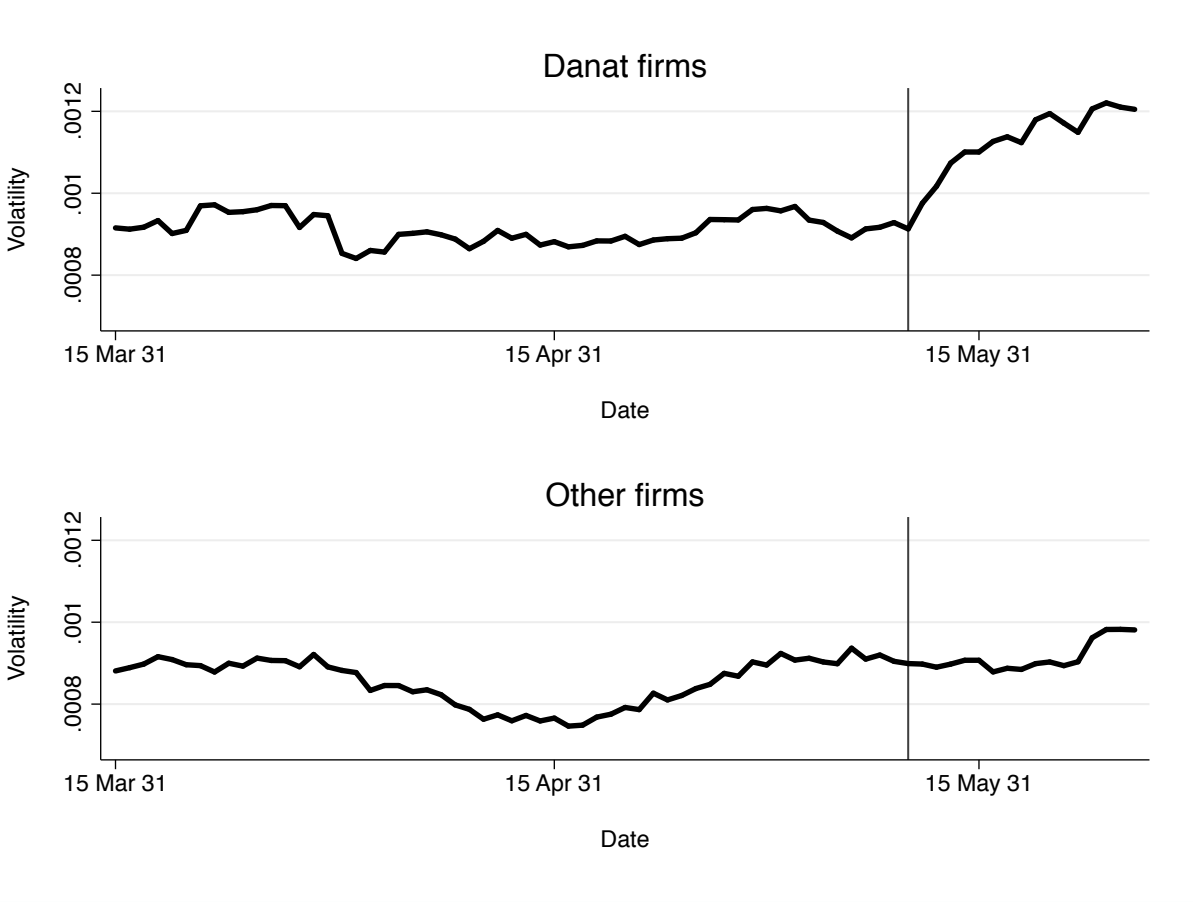


Figure 7: **Volatility.** This graph plots the average variance of firm-specific returns for firms connected to the Danatbank and for other firms. For each firm, the variances are calculated using the residual of a Garch(1,1) model. Then averages are taken across firms, once across firms connected to the Danatbank and once across other firms. The vertical line represents 11 May 1931.



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3. Detailed Historical Narrative

Suggestions

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1. Compare with the literature on the historical narrative approach:
 - Friedman and Schwartz (1963)
 - Others: Hausman (2014), Monnet (2014), Ramey (2011), Richardson and Troost (2009), Romer and Romer (1989, 2004, 2010, 2014), Velde (2009)

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2. Show volatility after May & intervals around price indices to indicate increased volatility

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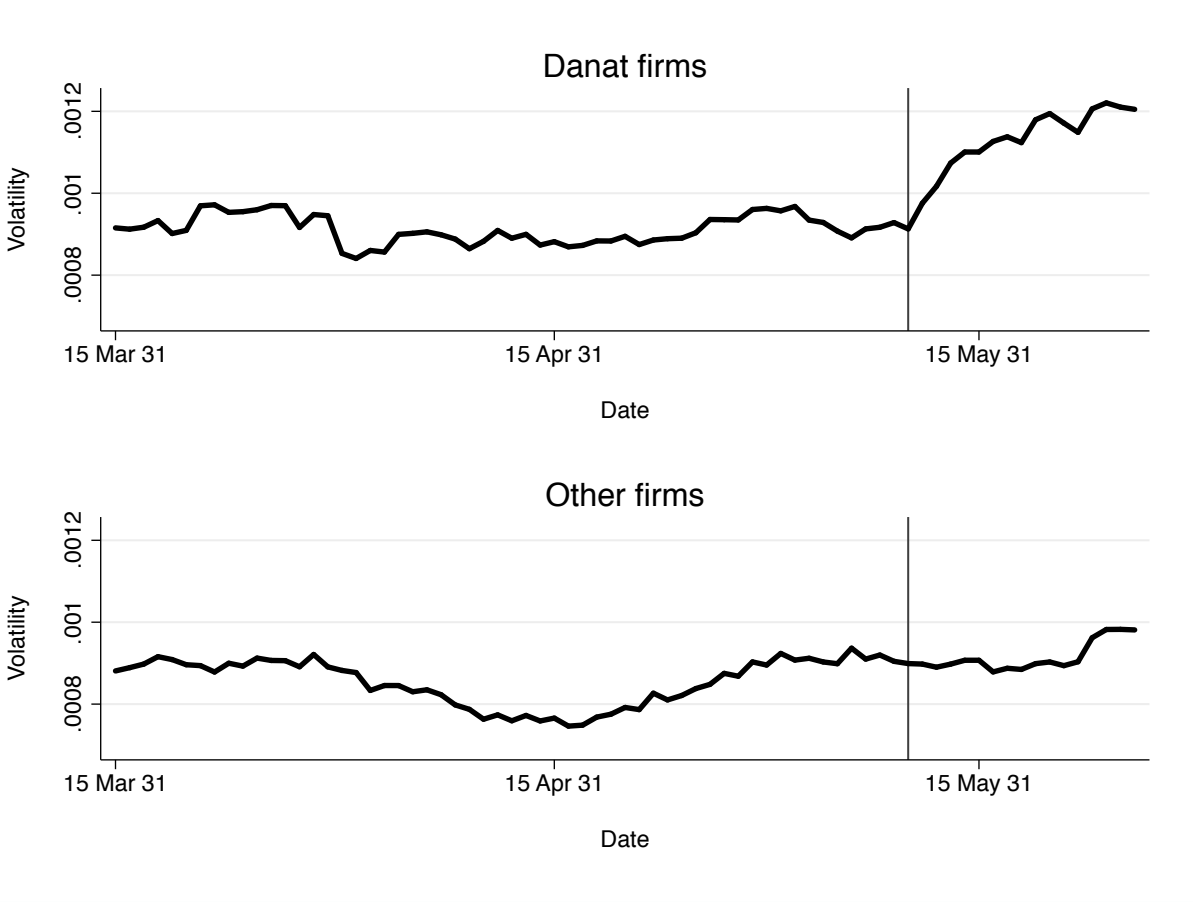
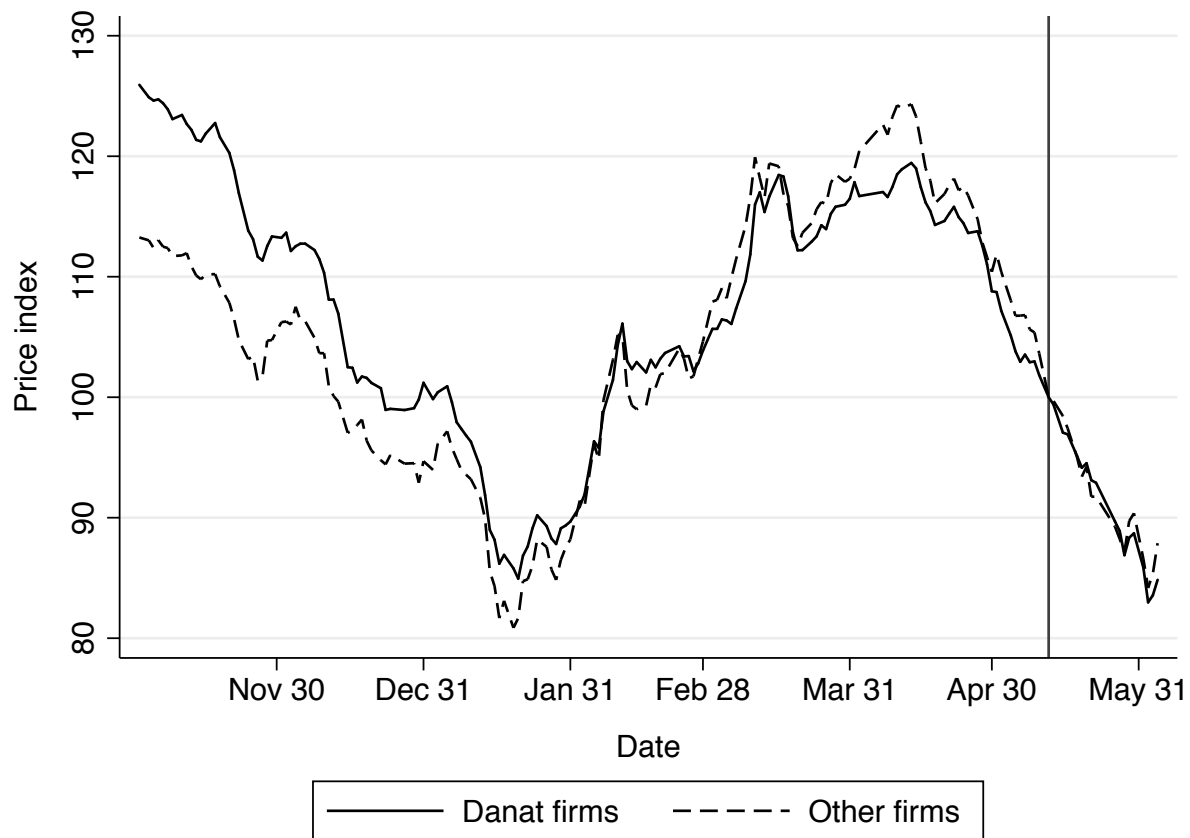


Figure 6: **Price indices.** This graph shows price indices for a portfolio of Danatbank firms and a portfolio of other firms. Daily portfolio returns are calculated as the average return across firms. The indices are normalized to 100 at 11 May 1931. The vertical line represents this date.



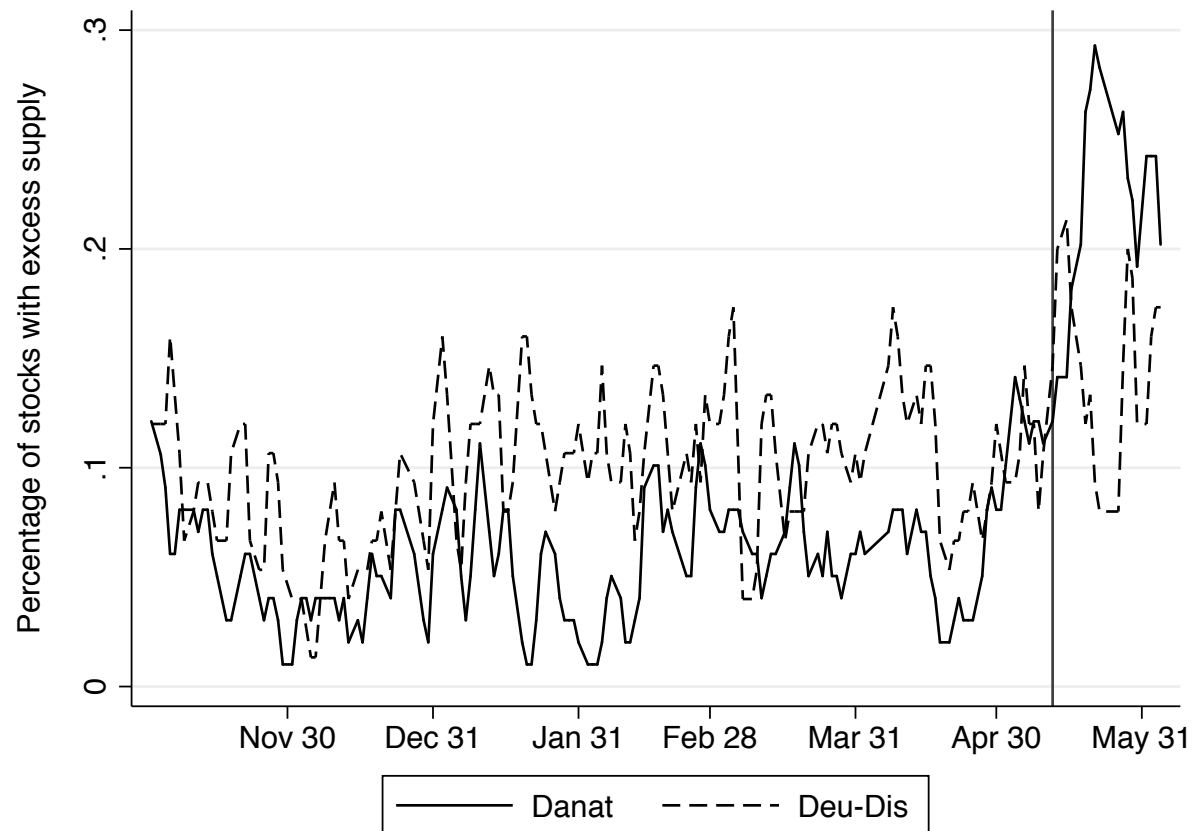
Two Main Lingering Questions

1. Nordwolle had been cooking its books for years. What was special about May 1931? Why did it finally go under then and not earlier?
 - Another shock? An omitted variable? Creditanstalt?

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2. Why did contemporaries not realize that such a sudden surge in supply order imbalances signaled trouble?

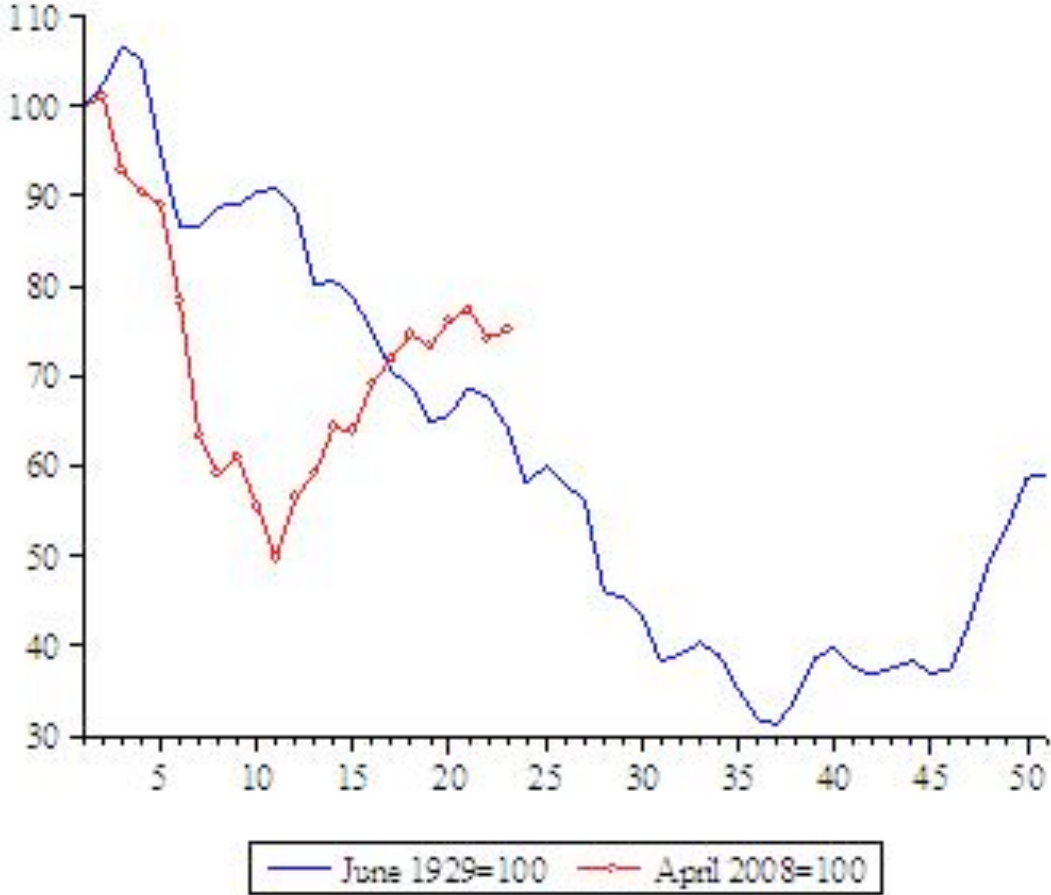
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Why Important?

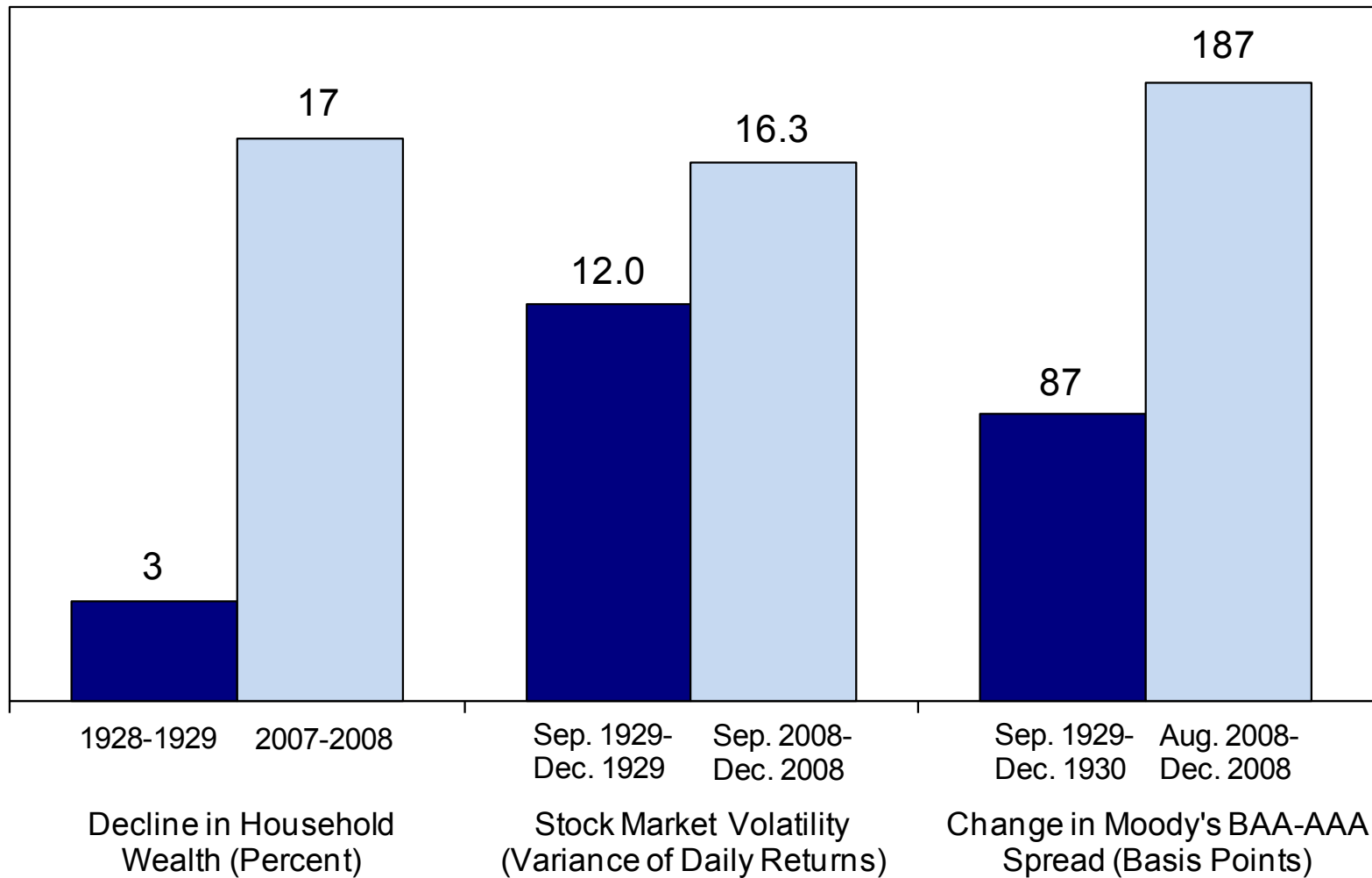
- A Channel to Explain V-shaped Price Patterns
 - Great Depression
 - Great Recession
 - Other Financial Crises

World Equity Markets: Great Depression vs Great Recession



Source: Eichengreen and O'Rourke (2010)

Shock Indicators: Great Depression vs. Current Recession



Source: Romer (2009)