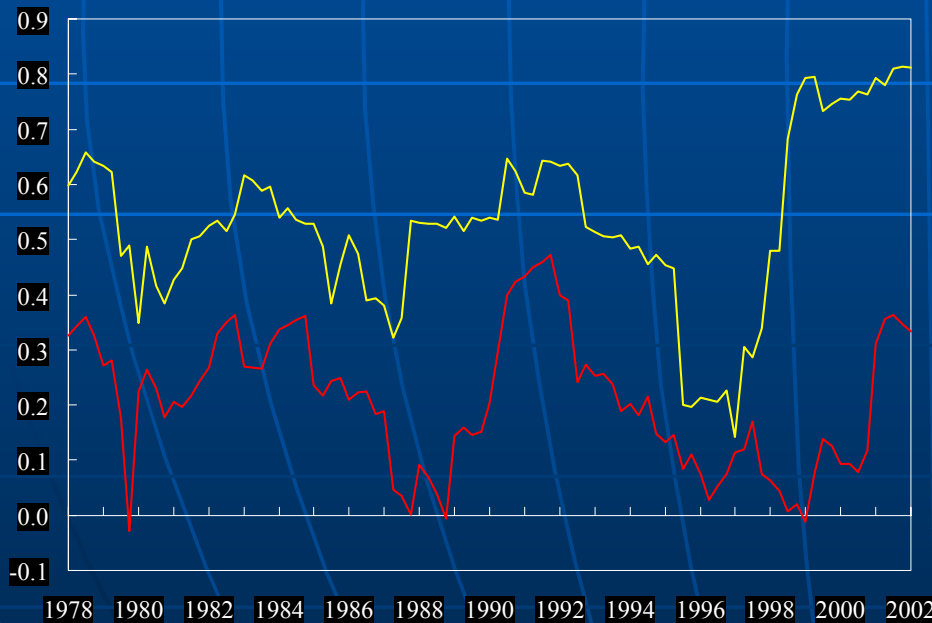


Larger and increasing financial comovement vs unclear behavior of real comovement

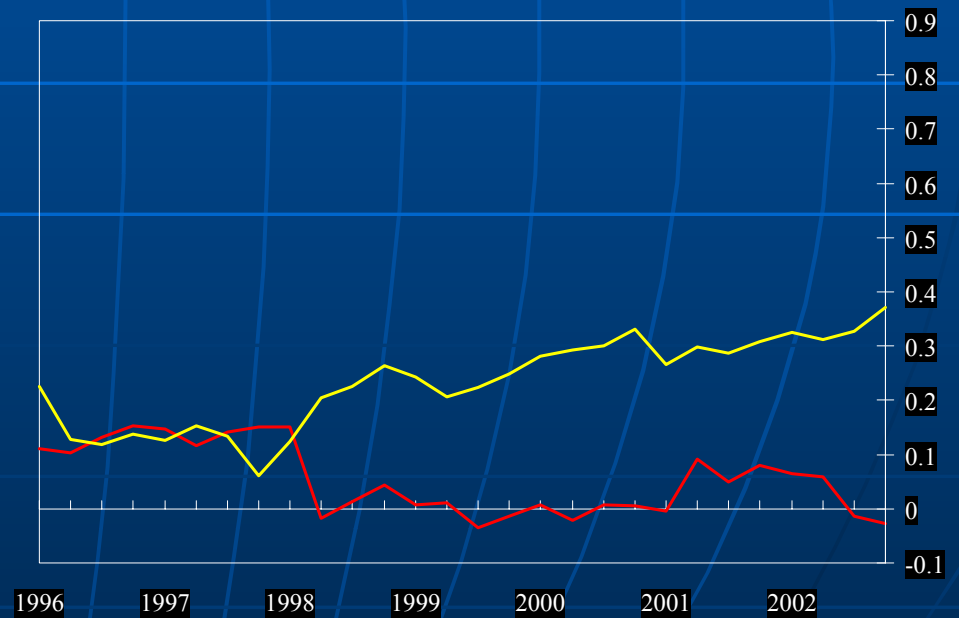
Average Correlations between
US and G-7 countries/Emerging Markets,
5-year window

— Stock Market Returns
— Real GDP Growth

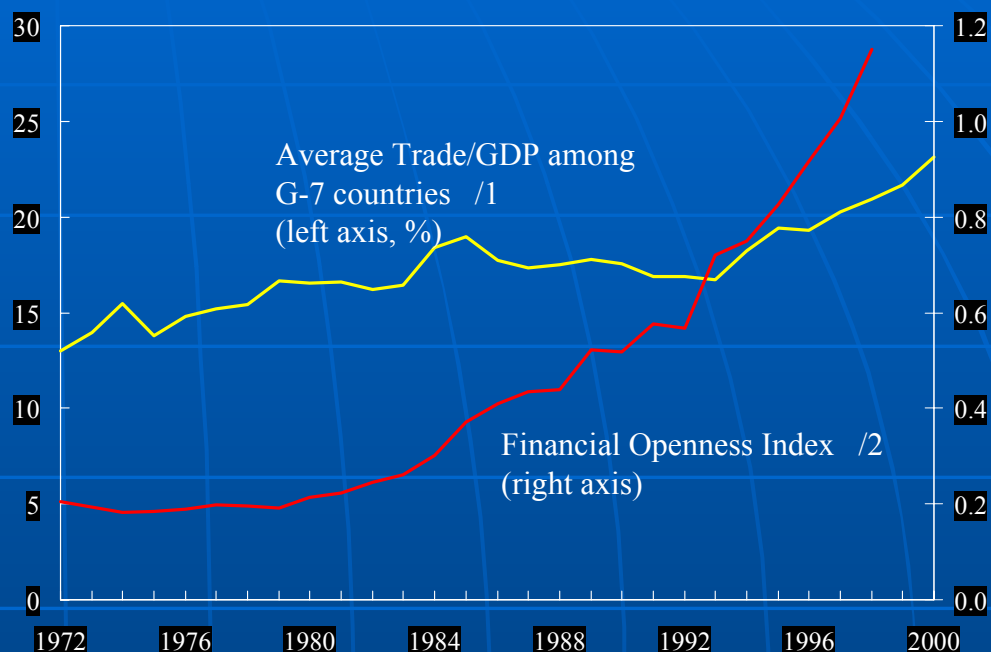
US and G-7



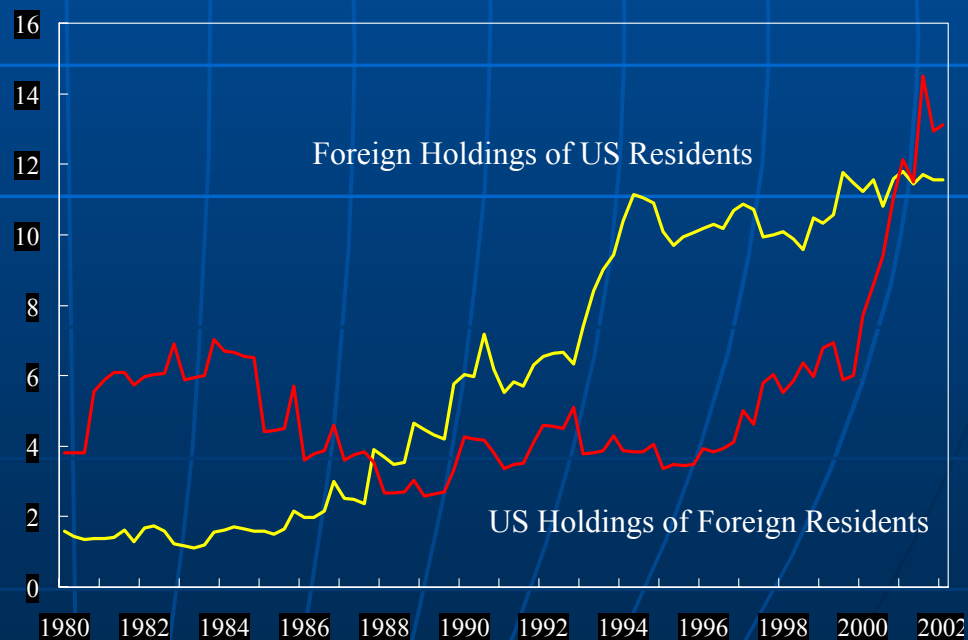
US and Emerging Markets



More pronounced increase of cross-border financial activity than that of international trade



Equity Share (%)



/1 Average Trade = Exports + Imports.

/2 (Total Foreign Assets + Total Foreign Liabilities)/GDP.

Sources: Brian Doyle and Jon Faust, Federal Reserve Bulletin 2002.

The Conference

■ On Financial vs. Real Comovement:

- Although small, there exists a link between financial and real comovement... What explains the rest?

- Brooks and Del Negro
- Chinn and Forbes
- Goetzmann, Li and Rouwenhorst

■ On Understanding Financial Linkages:

- Regional financial centers and push & pull factors play an important role for high frequency equity flows.

- Kaminsky and Reinhart
- Griffin, Stulz and Nardari
- Edison and Warnock

■ On Structural Factors Underlying Real and Financial Comovement:

- Long-run changes such as trade integration, industrial composition and closer policy coordination promote real integration.

- Imbs
- Kose, Otrok and Whiteman
- Karolyi
- Li, Morck, Yang, Yeung

Why the recent link between financial and real?

Theory is ambiguous

Research presented suggests that there exists a significant link between financial and real comovements.

Nonetheless we should expect to see episodes of "Global Shocks" where this link is stronger.

Recent comovement:
A Bubble, Temporary?

"Real" foundations?
(Productivity gains)

... But what are the sources of global shocks?

Role of financial centers

Trade integration that explain bilateral asset price movements

Oil prices

GLOBAL SHOCKS

Coordinated policies across countries

Global factors influencing performance of domestic capital markets

Why do crises spread?