

Financial Regulation, Financial Globalization, and the Synchronization of Economic Activity

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ABSTRACT

We analyze the impact of financial globalization on business cycle synchronization using a proprietary database on banks' international exposure for industrialized countries during 1978 to 2006. Theory makes ambiguous predictions and identification has been elusive due to lack of bilateral time-varying financial linkages data. In contrast to conventional wisdom and previous empirical studies, we identify a strong negative effect of banking integration on output synchronization, conditional on global shocks and country-pair heterogeneity. Similarly, we show divergent economic activity due to higher integration using an exogenous de-jure measure of integration based on financial regulations that harmonized EU markets.

Supporting Information

Disclaimer: Supplementary materials have been peer-reviewed but not copyedited.

Filename	Description
jofi12025-sup-0001-suppmat.pdf 534.2 KB	Appendix S1: Internet Appendix

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