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The failure of Lehman Brothers and its impact on other financial institutions

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Abstract

The failure of Lehman Brothers in 2008 was the largest bankruptcy in US history. Financial markets did not respond well to the news of this bankruptcy filing as the Dow Jones Industrial Average (DJIA) declined by more than 500 points by the end of the trading session that day. We identify key dates surrounding the final months of Lehman Brothers' existence and study the wealth effects experienced by shareholders of other financial institutions' stocks. At one of the first signs of trouble for the 158 year old investment bank, we find that when Lehman Brothers announced their first quarterly loss, the stocks of depository institutions and primary dealers declined. Ultimately, on 15 September 2008 when Lehman Brothers filed for bankruptcy, the stocks of banks and primary dealers declined by -2.90% and -6.00% , respectively, and were the biggest losers that day. We also study how the size of the depository institutions may have played a role in the adverse effects they experienced surrounding Lehman's

troubles. We present evidence that it was primarily large banks, savings and loans and brokerage firms who were impacted the most.

Keywords:

- too big to fail
- banking crisis
- event study

JEL Classification::

- G21
- G28
- E58

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