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An asymmetric dynamic conditional correlation analysis of linkages of European financial institutions during the Greek sovereign debt crisis

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Abstract

This article employs the asymmetric dynamic conditional correlation (DCC) model to assess impacts of the recent sovereign debt crisis on the time-varying correlations of five European financial institutions holding large amounts of Greek sovereign bonds
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Keywords: European sovereign debt crisis financial contagion dynamic conditional correlation

JEL Classification: F30 G01 G15

Notes

1. Ghezzi, Pascual, and Engles (2011). This analyst report lists up the estimated top 40 holders of Greek government bonds and Greek debt.

2. We recognize that using daily closing price data may result in an underestimation of the correlations between stock markets with non-synchronous trading hours. Nonetheless, using monthly or weekly data, we would be constrained by much smaller samples, which may be inefficient, especially with time-varying parameter approaches such as the asymmetric DCC used in this study. See Martens and Poon (2001) for more detailed discussions on potential issues of using daily stock prices.