

# Research Seminar "Quantitative Economics"

Winter Term 2024/2025

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Abstract

## **Financial Shocks and Leverage of Financial Institutions: When Do They Matter?**

(Kirstin Hubick, Yves Schöler & Dan Waggoner)

### Abstract

Our novel empirical analysis provides evidence that real effects of financial shocks are amplified by leverage of financial institutions in a financial-constraint regime. We build a market-based measure of leverage of financial institutions employing institution-level data and find that it is a useful indicator as input for financial stability policy. We also provide evidence of heterogeneity in how depository financial institutions, global systemically important banks and nonbank financial institutions affect the transmission of shocks to the macroeconomy. These results are based on our novel endogenous regime-switching structural vector autoregressive model with time-varying transition probabilities and the new identification techniques we propose.