Abstract

This thesis studies the international transmission of financial shocks using the Global Vector Auto-Regression (GVAR) approach, with an emphasis being placed on the euro area. Unlike previous research, the thesis simulates financial shocks through the ECB's Composite Indicator of Systemic Stress (CISS) in order to express the shock more directly. Additionally, the shadow rates estimates are included in the model to account for the presence of unconventional negative interest rates that have marked the economic developments of the last 15 years. The results generally suggest significant international consequences of the shocks. This is so also in the case of the simulated financial shock originating in the euro area, which is shown as potentially even more damaging than the US shock. Numerous other interesting results regarding the spread of the shocks are derived from the model. It is also found that shadow rates can affect the results to an extent, most notably perhaps in the case of the short-term interest rates in the euro area.