Systemic risk through contagion in a core-periphery structured banking network

Abstract:
We contribute to the understanding of how systemic risk arises in a network of credit-interlinked agents. Motivated by empirical studies we formulate a network model which, despite its simplicity, depicts the nature of interbank markets better than a symmetric model. The components of a vector Ornstein-Uhlenbeck process living on the nodes of the network describe the financial robustnesses of the agents. For this system, we prove a LLN for growing network size leading to a propagation of chaos result. We state properties, which arise from such a structure, and examine the effect of asymmetry on several risk management issues and the possibility of contagion.

Stichworte:
core-periphery bank model, financial contagion, inhomogeneous graph, interacting particles, systemic risk

Buchtitel:
A. Palczewski and L. Stettner: Advances in Mathematics of Finance

Band / Teilband:
104

Verlag / Institution:
Banach Center Publications

Verlagsort:
Warschau, Polen

Jahr:
2015

Jahr / Monat:
2015-06

Seiten:
133-149