

Firm-Level Evidence on Globalization

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Discussion by

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Motivation

Why has stock market comovement across countries increased over the last decade?

Approach

Relative importance of country-specific versus industry-specific factors in explaining cross-section of international stock returns.

Comprehensive firm-level dataset, 1985-early 2002

Basic factor model to disentangle different sources of shocks.
Also a simpler indicator model (special case of factor model).

Factors: Global
Country-specific
Industry-specific
Idiosyncratic

Some Key Results

About 50 percent of cross-sectional variance of stock returns explained by simple models

Relative importance of industry-specific shocks has risen during the 1990s while that of country-specific shocks has declined.

Interpretation of this result?

Measures of integration into international markets don't seem to account for changes in relative importance of industry-specific shocks

Identification of Shocks

Statistical decomposition

Effects of shocks not symmetric + simultaneous across countries, industries, firms

Propagation of shocks

Changes over time in relative importance of country- versus industry-specific effects works in authors' favor

Lagged propagation probably less of a concern for financial markets

This could explain differences in results for stock returns versus other "real" variables

But what about global shocks (common across countries and industries)? What's the underlying model here?

Country-specific and industry-specific shocks together explain only about a third of the cross-sectional variance of stock returns

Sources of New Results

Differences in :

Sample period

Dataset

Methodology

Survivorship bias

Limited balanced panel used for later results

Coverage of countries

Level of disaggregation

Is U.S. a special case?

Stock market bubble (IT sector) versus country effects for Asian emerging markets

Problem if country coverage limited for some industries?