



# **Terrorism, Global Capital Markets and the Role of Policymakers**

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**“How Economic Thinking Influences Policy”**

**College and University Faculty Economic Conference  
Federal Reserve Bank of Dallas**

November 13, 2002



## **Research Questions**

- RQ #1: Do historical terrorist attacks result in negative abnormal returns (U.S.)?
  - 14 events
- RQ #2: Do recent terrorist attacks result in negative abnormal returns (globally)?
  - 2 events
- RQ #3: Can the banking/finance sector help minimize crises (globally)?

A world map with a light blue background and a tan map. Red dots are scattered across the map, primarily in North America, Europe, and Asia.

## Research Methodology

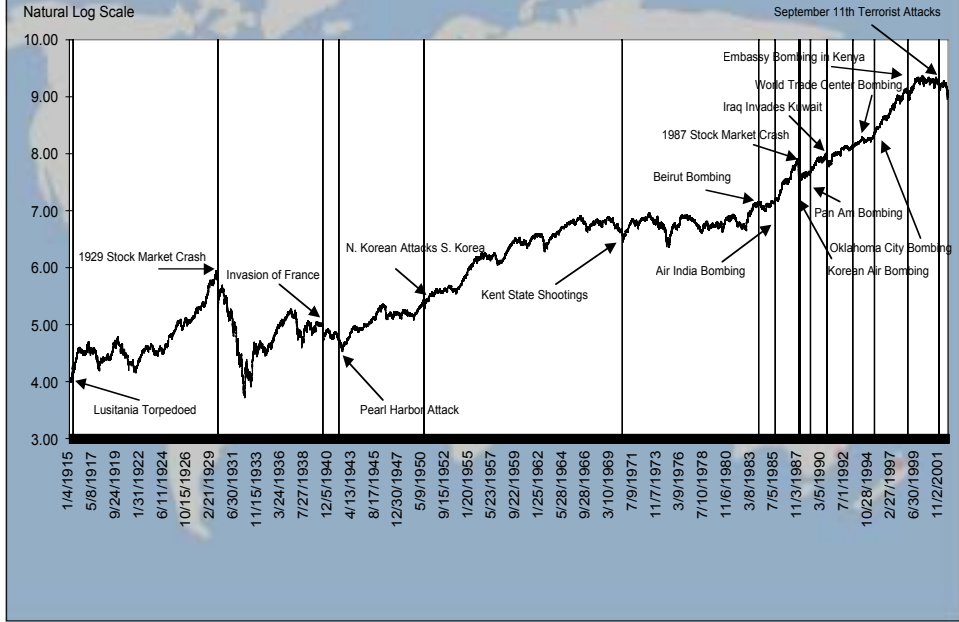
- Event-study methodology to identify abnormal returns
- Efficient Markets Hypothesis (Fama, Fisher, Jensen, Roll, 1969)
- Mean-adjusted returns approach (Brown and Warner, 1985)

A world map with a light blue background and a tan map. Red dots are scattered across the map, primarily in North America, Europe, and Asia.

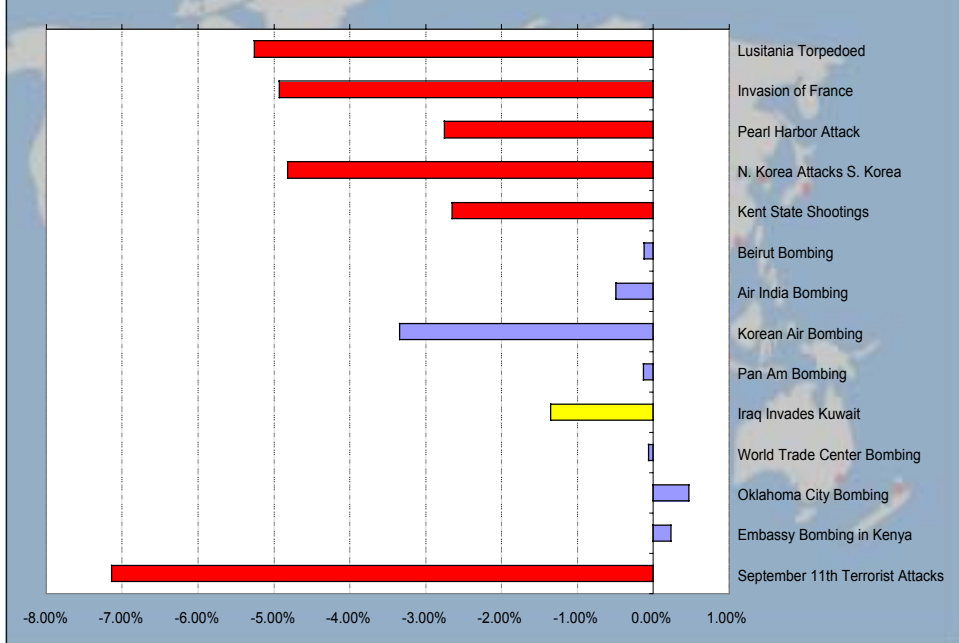
## Historical Terrorist Attacks and U.S. Capital Markets

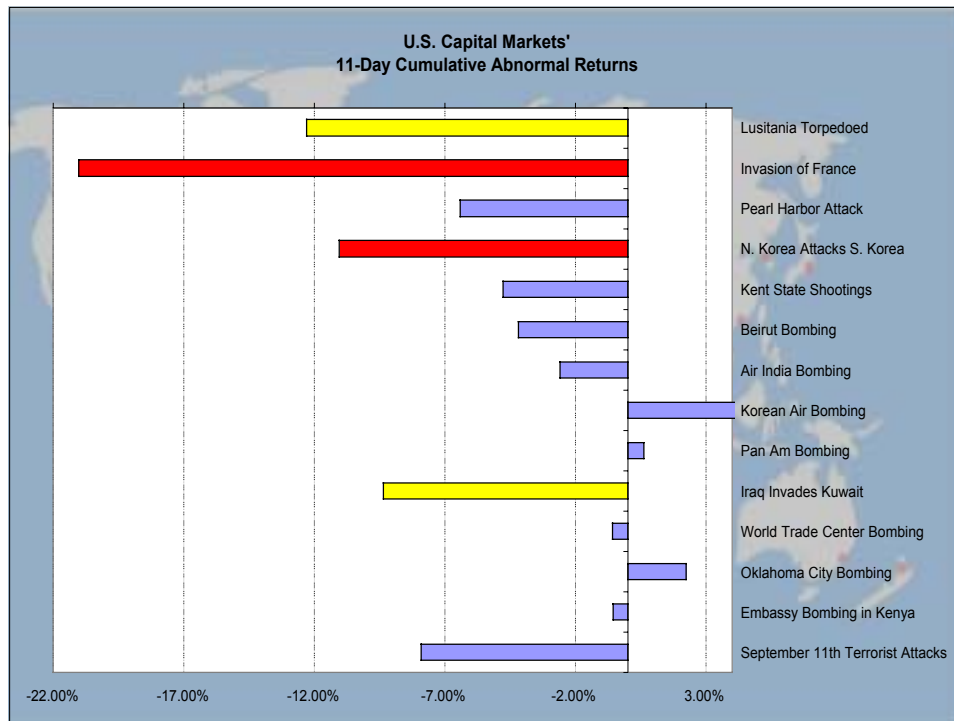
- Fourteen Events
  - significant terrorist incidents
  - surprise military attacks
- Dow Jones Industrial Average

**Figure 1**  
**Dow Jones Industrial Average**  
**1915 - 2002**



**U.S. Capital Markets'**  
**Event-Day Abnormal Returns**



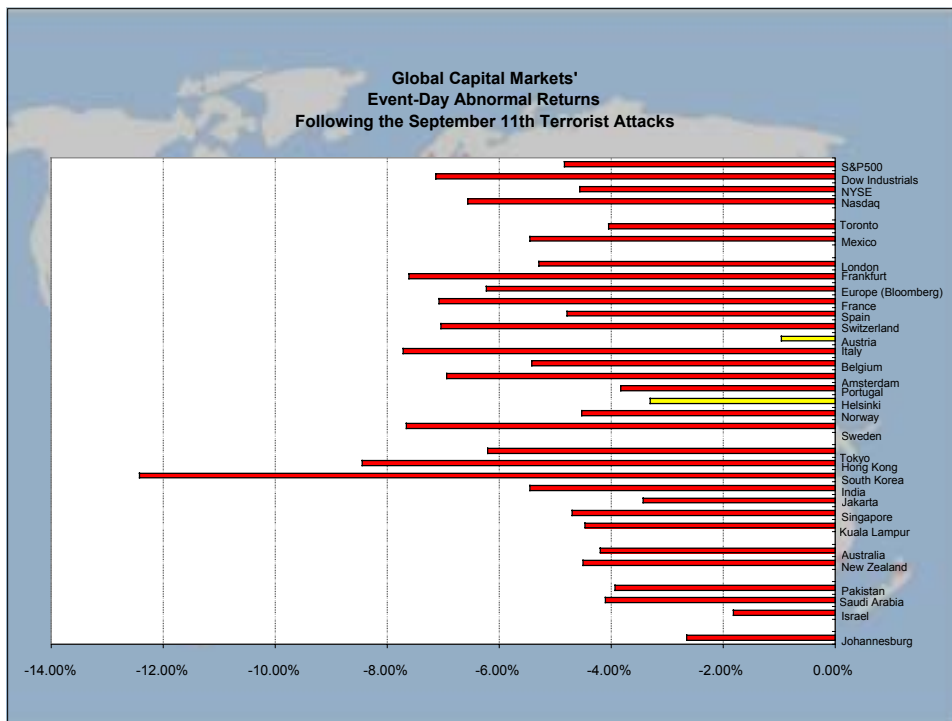


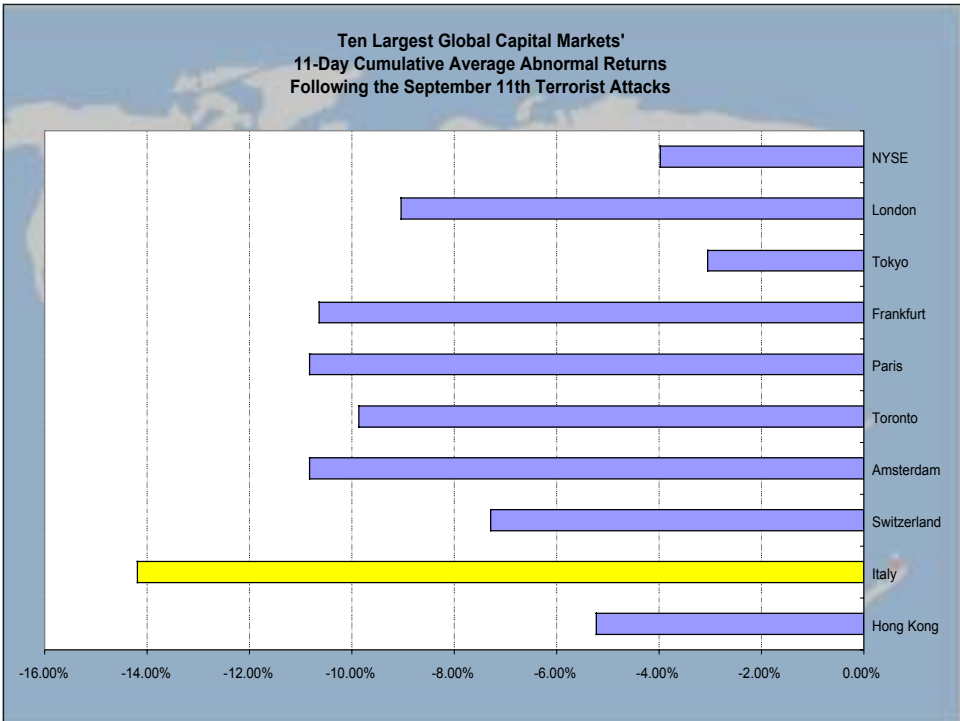
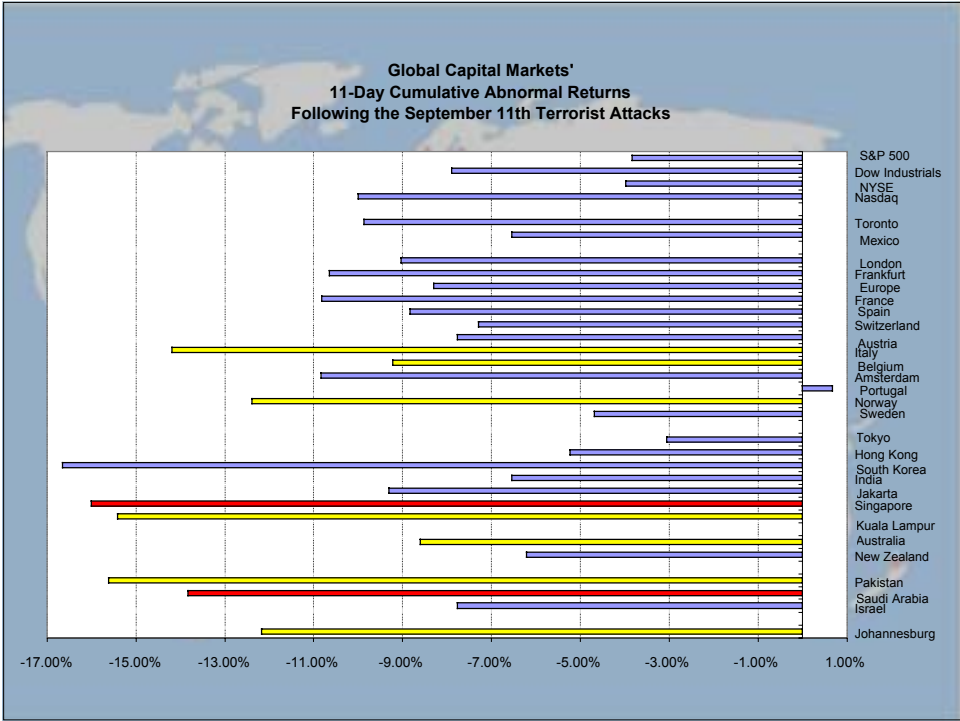
## RQ #1 Answers

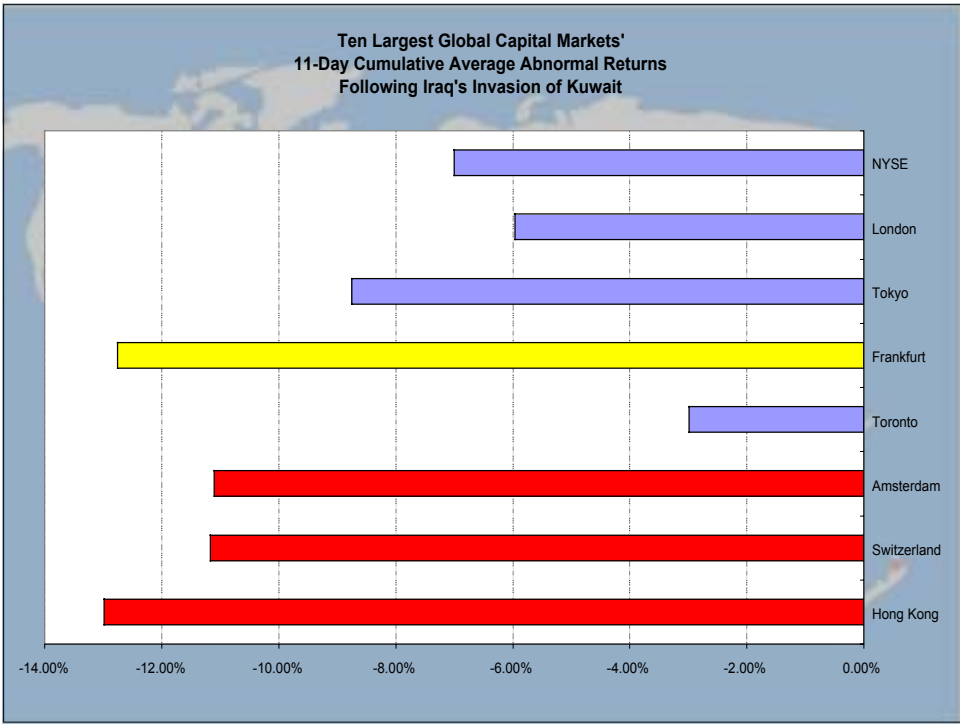
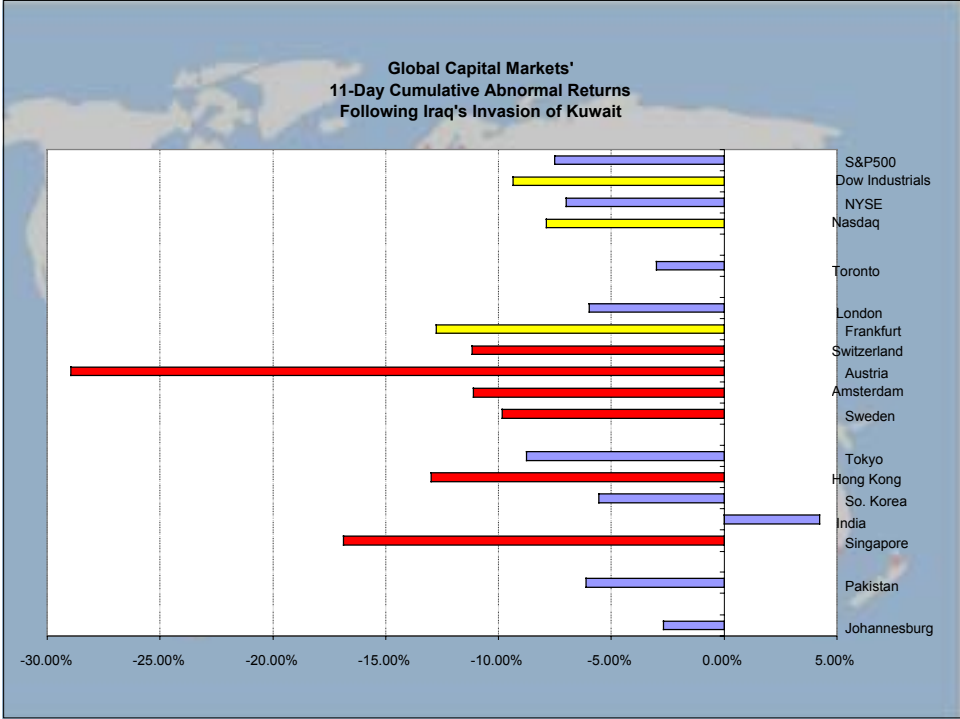
- In general, terrorist attacks negatively affect U.S. capital markets
- U.S. capital markets absorb news quickly
- U.S. capital markets more resilient today
  - improved information and communications technologies
  - policymakers adding liquidity and promoting stability?

# Recent Terrorist Attacks and Global Capital Markets

- Two Recent Events
  - September 11th Terrorist Attacks
  - Iraq's Invasion of Kuwait
- 33 Global Capital Market Indices



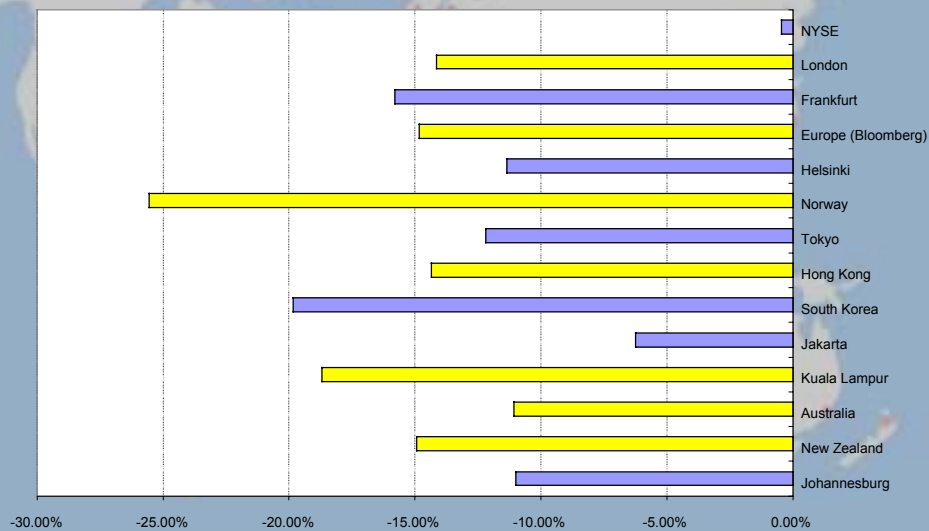


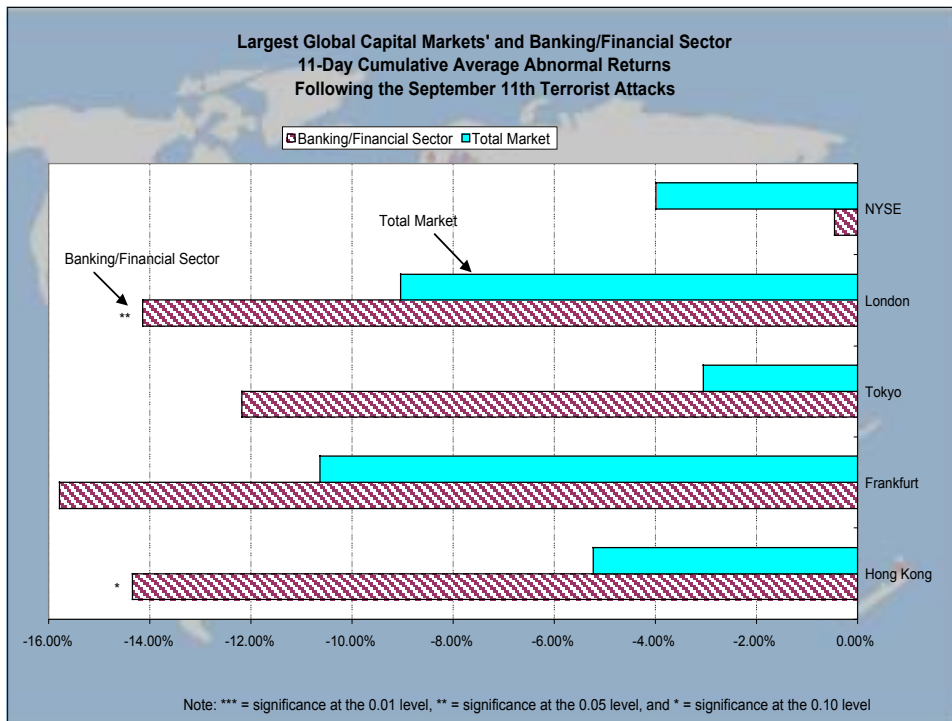


## RQ #2 Answers

- Terrorist incidents negatively affect global capital markets
- Global capital markets tightly inter-linked
- U.S. capital markets more resilient than other global capital markets

Global Capital Markets' Banking/Financial Sector  
11-Day Cumulative Abnormal Returns  
Following the September 11th Terrorist Attacks





## RQ #3 Answers

- U.S. banking/financial sector impacted far less by terrorist incidents than in other global capital markets
- Banking/financial sector seems to play a large role in returning calm to markets
- Central Bank (monetary authority) seems to play an important role in calming sector

A world map with a light blue background and a tan map, showing major landmasses and some red dots indicating specific locations. The map is centered on the Atlantic Ocean.

## Conclusions

- Global capital markets tightly inter-linked
- U.S. capital markets more resilient
  - than in past
  - than other global capital markets
- Increased capital market resiliency partially due to a strong and efficient banking/financial sector

A world map with a light blue background and a tan map, showing major landmasses and some red dots indicating specific locations. The map is centered on the Atlantic Ocean.

## Policy Implications

- Importance of being aware of what is going on around the world
- Importance of a healthy and stable banking/financial sector and efficient and effective execution of monetary policy
- Importance of sharing information