

The Impact of International Instabilities on USA Financial System.

M. Getmansky

Department of System Dynamics at MIT Sloan School

of Management

mgetman@mit.edu

This paper studies the impact of international markets on USA financial system by presenting a simulation model which addresses these relationships. Recent defaults and instabilities in European, Latin American, and Asian markets have impacted the financial system of the United States. The stock market and people's trust in stable American financial system have been shattered by international instabilities. However, there is no one particular international instability which impacts the United States' market in one particular way. There are many international incidents which impact the USA's financial system in multifaceted ways. It is important to carefully analyze the nature of international instabilities and its effect on the USA's market. These effects can have large and small magnitudes, immediate and delayed effect, and other impacts of different nature. The paper is going to present an example of such an impact. The paper is also going to present a thorough analysis and suggested policies for analyzing such impacts based on the simulation model. As a system dynamics paper, it will contain conceptualization, formulation, and testing parts. This paper is currently a working paper. My immediate advisors for this paper are Professors John Sterman, Nelson Repenning and Andrew Lo from MIT Sloan School of Management.