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Abstract:

This paper tries to shed light on the historical analogies of the current crisis. To that end we compare the current sample distribution of Dow Jones Industrial Average Index returns for a 769-day period (from 15 September 2008, the Lehman Brothers bankruptcy, to 30 September 2011), with all historical sample distributions of returns computed using a moving window of 769 days in the 2 January 1900 to 12 September 2008 period. Using a χ^2 homogeneity test, we find that the stock market returns distribution during the current crisis would be similar to several past periods of severe financial crises that evolved into intense recessions, being the sub-sample from 22 September 1937 to 16 October 1940 the most analogous episode to the current situation. Furthermore, when applying the procedure proposed by Diebold et al. (1998) for comparing densities of sub-samples, we obtain additional support for our findings and discover a period from 18 September 1930 to 23 October 1933 where the severity of the crisis overcome the current situation having sharper tail events. Finally, when comparing historical market risk with the current risk, we observe that the current market risk has only been exceeded in the beginning of the Great Depression.