

Economic links, risk and stability

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Counterparty risk is an important determinant of corporate credit spreads. However, there are only a few techniques available to isolate it from other factors. In this paper we describe a model of financial networks that is suitable for the construction of proxies for counterparty risk. Using data on the U.S. supplier-customer network of public companies, we find that, for each supplier, counterparties' leverage and jump risk are significant determinants of corporate credit spreads. Our findings are robust after controlling for several idiosyncratic, industry, and market factors.