

**IMPACT OF U.S. FINANCIAL SHOCKS UPON THE CANADIAN ECONOMY**

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**ABSTRACT**

Using methods that allow for variation in the impact of U.S. financial shocks' spillovers on to Canadian real GDP growth depending upon the level of U.S. financial stress at the time of the new shock, we find differential impacts from U.S. financial shocks. When the U.S. is in a low stress environment a rise in U.S. financial stress has a slight positive impact upon Canadian real GDP growth, but when U.S. financial stress begins in a high stress environment any further increase in U.S. financial stress reduces Canadian real GDP growth. The identified high stress U.S. financial environment occurs in approximately the highest 25% of the monthly U.S. financial stress index values from 1981 onward.

Keywords: *Canadian real GDP, financial stress spillovers, asymmetric impacts*