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What Macroeconomic Risks Are (not) Shared by International  
Investors?

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**ABSTRACT**

Adopting an asset-market view of international risk sharing, we identify various sources of macroeconomic risk faced by international investors using a structural Vector Autoregression model. We find that most of the risks of exogenous financial market shocks are shared by international investors through the existing asset markets. However, other macroeconomic risks such as those associated with exogenous shocks to consumption growth, inflation and monetary policies are not fully shared across countries. This finding helps us understand the apparently contradicting pictures of international risk sharing painted by asset market returns and by aggregate consumption growths across countries.

**KEYWORD:** macroeconomic shocks; nonlinear VAR; risk sharing; stochastic discount factor.

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