*Online Appendix*

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This appendix provides preliminary evidence on the real economic impact of the transmission of financial distress through the interbank network during the Panic of 1907.

We first examine state-level commercial failures published quarterly by *Dun’s Review*. We collected the information on non-bank failures for 1906 through 1909 to provide a view of failures before, during, and after the panic. To match the commercial failure data, we aggregate the number of banks in a state that had at least one correspondent in New York City to the state-level. Moreover, we calculate the average distance of banks in the state from New York City to capture any distance effects. We estimate the following fixed-effects panel model:

where is either the logarithm of total commercial failures or the logarithm of the total liabilities of commercial failures in state *s* in quarter *t*; is the fraction of banks in state *s* that had at least one correspondent in New York City in 1907; is the average distance of banks in state *s* from New York City; is a vector of quarter fixed effects; is a vector of state fixed effects; and is the error term.

Figure A1 reports the vector of coefficients () on the interaction between the fraction of banks connected to New York City and the quarter fixed effects. The data show that commercial failures in more highly connected states rose both in number and liabilities during the Panic of 1907 and into 1908. The coefficients on fall short of statistical significance at the 10 percent level for the number of commercial failures, but are positive and statistically for the fourth quarter of 1907 as well as for the first, second, and fourth quarters of 1908 for the failure liabilities. The result that bank connections to New York City boosted commercial failures during the panic and subsequent recession is consistent with transmission of the panic to real economic activity. However, the state-level data are lacking in some ways. Most importantly, because commercial failures are aggregated at the state level, we are unable to test whether the locations of commercial failures coincided with the locations of banks with New York City connections.

Stock market data provide another potential measure of real economic activity as prices reflect market conditions and expected profits and dividends of firms. We obtained monthly observations on stock price indices that exclude banks for eight U.S. cities (other than New York City) from Global Financial Data. The sample is reduced to seven cities because data for Los Angeles are missing for January 1908. With so few cross-sectional observations, we use a mean comparison of the performance of non-bank stock market indices in cities with the highest concentrations of interbank connections to New York City with those with the lowest.

First, we identified the three most highly connected cities (Boston, Cleveland, and Philadelphia) and the four least connected cities (Baltimore, Chicago, San Francisco, and St Louis) based on a natural breakpoint in the distribution. Second, we calculated the average level of stock market indices for each group in each month. Finally, we took the difference in averages between the two groups in each month and normalized it to zero in September 1907. Figure A2 provides the resulting normalized mean differences by month. The data show that the difference between the two averages is negative during the panic months (October-December 1907), implying that the stock market indices of the cities with more New York City connectivity underperformed in those months. However, the difference is positive in all other months, indicating that the indices of the most connected cities typically outperformed. As with our findings for commercial failures, we caution against making causal interpretation because the stock market indices are highly selected and only available for a few large cities.

Figure A1: Effect of Interbank Connections to New York City on State Commercial Failures

Panel A: *ln*(Number of Commercial Failures)

Panel B: *ln*(Liabilities of Commercial Failures)

Notes: The figures report the vector of coefficients () on the interaction between the fraction of banks connected to New York City and the quarter fixed effects in equation (A1).

Figure A2: Effect of Interbank Connections to New York City on Regional Stock Prices

Notes: The figure presents the mean differences between the non-bank stock market indices of cities with a high concentration of connections to New York City and that of cities with a relatively low concentration. The difference is normalized to zero in September 1907.