

## Research Synopsis

### **The Effects of International Terrorism on the Dow Jones Industrial Average**

This project aims to assess the impact of international terrorism on the Dow Jones Industrial Average (DJIA).

**Modeling Area:** Economic Analysis

**Investigator:** Michael Hakimi

**Institution:** CREATE

**Mentor:** Peter Gordon, USC

**Other Investigators:** Dr. Boaz Ganor, The Interdisciplinary Center in Herzliya Israel.

#### **Brief Description:**

The purpose of this research is to evaluate the dynamic effects of international terrorism on the DJIA. This project will specifically analyze the impact of four international terrorist events: Bali 2002, Madrid, Spain 2004, London Railroad 2005, and Istanbul, Turkey 2003. The analysis will include the effects of the United States occupation in Iraq and of key terrorist activities that have taken place in Iraq during the occupation: the Canal Hotel bombing, Baghdad 2003; Basra bombing, 2004; Oil tanker in Masayyib, 2005. This work builds on CREATE efforts to develop a better understanding of financial effects of terrorism. The purpose of this work is to provide quantitative information of the potential economic effects that international terrorism can have on the American economy and specifically on stock markets.

#### **Objectives:**

This research will (a) develop a better understanding of relationship between market fluctuations and international terrorism; b) help understand the effect of U.S. government's presence in Iraq on the economy, c) to help understand market adaptation and resilience d) determine options for reducing the impact of terrorism on the market.

#### **Interfaces to other Center Projects:**

This work will maintain a close interface with the CREATE's risk analysis and economics projects.

#### **Interfaces to non-Center Projects:**

This project will also work closely with Dr. Boaz Ganor, the deputy dean of the Lauder School of Government and Diplomacy at the Interdisciplinary Center Herzliya. Dr. Ganor is also the founder and the Executive Director of the International Policy Institute for Counter-Terrorism (ICT). The project will benefit from information available in I.D. C. to achieve the counter terrorism perspective.

#### **Major Products and Customers:**

<http://www.textbiz.org/images/^NYA2006h.png>

**Is there a relationship between International Terrorism and the Dow Jones Industrial Average?**

This research will produce a report describing the relationship between markets and international terrorism, the effect of the U.S. government's presence in Iraq on the economy, market adaptation and resilience, and recommendations for reducing the impact of terrorism on the market. The key product is a better understanding of stock market elasticity and how to enhance its resilience to terrorism events.

**Technical Approach:**

This work will examine the correlations between DJIA data and terrorism databases. A consequence assessment correlation model will be developed based on existing economics analyses and databases using a mix of methodologies, such as statistical trend analysis, economic analysis by experts, as appropriate. The overall framework will use the Dow Jones Industrial index to determine the impact of each event.

**Major Milestones and Dates:**

1. Gather information, develop concepts and the variables further-June-August 2006
2. Finalize literature review June-August 2006
3. Review the Historical data for DJIA Index June-August 2006
4. Review specific events with eminent economic market impacts- August 2006
5. Gather data about the DJIA's index prior and post the attacks – October 2006
6. Access appropriate statistical analysis - December 2006
7. Develop statistical model- January 2007
8. First Draft of the paper- March 2007