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Insight into Market Efficiency, Inter-Linkages & Volatility transmission a cross Stock Markets of major Developed & Emerging Economies

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Abstract

This paper examines the efficiency, inter-linkages and volatility transmission across the stock markets. USA, UK, Japanese, Indian and Chinese economies. The dataset consists of daily stock indices of the five countries for 25 year period starting from January 7th, 1991 till December 31st, 2015, covering approximately 5150 observations. The results indicate that only UK and Japanese stock markets follow random walk as per Lo & MacKinlay Variance Ratio test. Further, our findings reveal the presence of significant short run inter-linkages, with the causality moving from USA and UK markets towards Asian markets. There is presence of long run co-integration among almost all the five countries. The result of ARCH–GARCH model reveals that the volatility in stock markets of other countries. The findings are useful for devising an appropriate diversification strategy and would serve the potential investors, government, regulators, policy makers, academicians and researchers.

I. Introduction

THE ECONOMIC LIBERALIZATION of the economies around the world and the emergence of new capital markets in recent years have lead to an increase in investor's interest in international diversification. The capital market plays a very important role in the economic growth of a country. It is a place where long term debt and equity are traded. The liberalization of equity market gives an opportunity to the foreign investors to invest in domestic equity markets and a right to the domestic investors to transact in foreign equity market. International diversification enables the investors to have a larger basket of foreign securities to choose from as part of their portfolio assets, which may enhance the reward-to-volatility ratio. However, these gains from international diversification would be limited if national equity markets are inclined to move together in the long run.

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counter markets so as to take preventive measures well in advance as these developments might change the perception of investors across the other two markets.

The study contributes to the existing literature by giving significant results and proves the notion that USA stock market is dominating and has significant impact on the other four countries. However, the present study focussed on only five countries of the world, namely, USA, UK, Japan, India and China. So, the future researchers can do a more extensive study covering more regions and also doing a more comprehensive study by dividing the entire period into sub-periods.

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Capital Structure Decisions



Under Multiple Objectives A Study of Indian Corporates

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