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Stock Market Integration : Empirical Evidence from leading Stock Indices

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Abstract

The relevance of this paper is stemming out of the time in which it has been conceptualized and written, i.e. the year 2020 when the entire world is undergoing a severe crisis, be it social or financial. The paper aims at establishing a relationship between the various stock indices under study and understands how the movement in Indian stock market is explained by the other markets. The market economies of the world are inter-dependent on each other due to the globalization of trade amongst them. The paper will take into consideration 4 leading stock indices to understand their pattern of movement and their association in the short and long run. The study of co integration is conducted on past ten years data (April 2011 to May 2020) of Nikkei (Japan), Dow Jones (USA), Hang Seng (Hong Kong) and SENSEX (India). Vector Autoregressive Model (VAR) is used to conduct the analysis. The findings indicate that there exists only a short run relationship amongst them.

JEL Code : E44, F30, P52
Keywords : Co-integration, stock market indices, Asia, Nikki, Dow Jones, Hang Seng, Sensex, VAR, portfolio diversification, India

I. Introduction

STOCK MARKETS ACROSS the world play an essential role in the development of an economy thus leading to the economic growth. The stronger the index of a market, the more robust, is the economic situation (Levine and Zervos, 1996, 1998 and N'Zue (2006). In the current pandemic era and amidst political upheavals, we have witnessed huge fluctuations in the stock markets globally. These fluctuations affect the trading line and also the expectations of the investors (Sharma and Kaushik, 2018), because normally a stable market is an investor's heaven. There is a lot of speculation

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of the Dow Jones to know how would the Indian Market look like or move and plan their investment based on the co-integration level . Since lower level of co integration exists in the long run, leading to more chances of diversifying long-term investments .This way the investors can earn and protect their profits.

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