

Equity Market Volatility Behavior in Sri Lankan Context

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Colombo Stock Exchange (CSE) in Sri Lanka is at its first level of emerging markets. Volatility of emerging markets are considered to be high and characterized by complex features. Therefore, this study focusses on examining the volatility behavior of Colombo Stock Exchange with advanced econometric models. Here GARCH, EGARCH and TGARCH models are used to capture the complex volatility features. It is observed that volatility clustering and leverage effect exist in Colombo Stock Exchange. Further, negative shock creates more volatility compared to a positive shock generated in the market. TGARCH model assuming student-t probability distribution function is more suitable to explain the volatility in Colombo Stock Exchange among the models described above according to the Akaike and Schwarz information criteria.

Keywords: *Volatility, GARCH, EGARCH, TGARCH, CSE, Clustering, Leverage*

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