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Comparative Study of Global Stock Market Volatility with an Emerging Economy

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Globalization is nothing new, but the interconnection between societies is new. Furthermore, globalization took different forms to different economies either by giving a positive impact or a negative impact. Therefore, it is important to investigate the impact of globalization on emerging economies.

This paper fits Generalized Auto-Regressive Conditional Heteroskedasticity (GARCH) models of the daily closing stock market indices of five countries (UK, US, Japan, Singapore and India) for the period January 2000 to December 2010 because of global economic downturn, to compute time-varying weights associated with the volatilities of individual indices. These weights and the respective stock market returns were then used to determine the common component of stock market indices. Then, the All Share Price Index (ASPI) is compared with the common component.

Our results suggest that the open economic policies launched by Sri Lanka have led to being more globalized than ever before since the reported results confirm the common trends in stock market volatilities. Even though the direction is similar with the common component (Global trend) the dimension of the impact looks different.