Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.
AN EMPIRICAL ANALYSIS OF THE TRANSMISSION OF MARKET MOVEMENTS: LINKAGES BETWEEN EQUITY MARKETS IN THE ASIA PACIFIC REGION

A thesis presented in partial fulfilment of the requirements for the degree of Master of Business Studies in Finance at Massey University

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This study provides an empirical analysis of the transmission of market movements to examine the linkages between markets, and the efficiency with which innovations between markets are transmitted in the Asia Pacific region. Vector autoregression (VAR) analysis has been carried out on daily data for the period, January 1, 1987 to May 29, 1998, for ten markets in the Asia Pacific region: Australia, Hong Kong, Japan, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and the United States. This is the first study, that the author is aware of, to consider the generalised approach to forecast error variance decomposition and impulse response analysis in favour of the traditional orthogonalised approach for studying the linkages between equity markets. The generalised approach is invariant to the order of the variables in the VAR model. Forecast error variance decomposition and impulse response analysis has been used to study the nature of the linkages between markets in the region, and the efficiency with which innovations are transmitted between the markets in the region. The Asia Pacific region is characterised by a number of markets with strong linkages. The dominant influence of the U.S. market in the region is also apparent from the results. The impulse response functions are consistent with the notion of informationally efficient equity markets in the Asia Pacific region. The analysis has been carried out on exchange rate adjusted data as well as local currency data so that the effect of exchange rate risk can be taken into account.
This thesis could not have been completed in the form it has taken, without the guidance of two important people, to whom I owe a great debt of gratitude.

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