

A spatial analysis of international stock market linkages

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The severe global impacts of the recent financial crises have intensified the need to understand how country specific shocks are transmitted to other countries. Using spatial econometric techniques, we analyze the impact of various linkages between countries (bilateral trade, exchange rate stability, foreign direct investment, geographic closeness, inflation convergence, and similarity in industrial structure) on the interdependence of their stock markets. We analyze monthly returns of 41 national stock market indexes over a period of 16 years. Our empirical results indicate that similarity in industrial structure is the most important underlying source of stock market dependencies.

This talk will lay out the econometric approach used in the analysis and present some preliminary simulation results comparing various estimation methods. Some of the most important empirical findings will also be discussed.