The effect of dynamic relationship between domestic market and world market on stock returns volatility

Publons ID	33122455
Wos ID	WOS:000481624500052
Doi	10.1088/1755-1315/255/1/012052
Title	The effect of dynamic relationship between domestic market and world market on stock returns volatility
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Publish Date	2019
Journal Name	1ST INTERNATIONAL CONFERENCE ON LIFE AND APPLIED SCIENCES FOR SUSTAINABLE RURAL DEVELOPMENT
Citation	1
Abstract	The purpose of this study is to analyze the effect of dynamic relationship between domestic market and world market on stock returns volatility. To test this purpose, we use generalized autoregressive conditional heteroscedasticity (GARCH) model. In addition, dynamic relationship between domestic market and world market was measured by the dynamic conditional correlation (DCC) model. While conditional variance as measure for stock returns volatility was generated from variance equation of GARCH(p,q) procedure. The daily market indices data and their stocks prices over period from 01: 01: 2003 to 30: 12: 2016 were taken from China, Philippines, and world stock markets. Furthermore, the causality effect was also analyzed during the global financial crisis for period of 01: 03: 2008 to 31: 03: 2009. As the result, this study empirically suggests that the dynamic relationship between each domestic market and world market has a positive effect on stocks returns volatility. This evidence occurs in both overall sample period and during the global financial crisis period.
Publish Type	Book in series
Publish Year	2019
Page Begin	(not set)
Page End	(not set)
Issn	1755-1307
Eissn	
Url	https://www.webofscience.com/wos/woscc/full-record/WOS:000481624500052
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