

Dynamic Stock Market Integration: India and Major Developed and Emerging Economies

ABSTRACT

The examination of interconnectedness of financial markets is integral to understanding financial crises and their propagation mechanisms. The understanding is critical to identify systematic risk factors and to ensure financial stability. The paper attempts to examine the short term interactions between India major developed countries – US, UK, Germany & Japan and emerging economies – China, Hong Kong, Russia, Indonesia, Malaysia, Singapore, Taiwan, Brazil, South Korea. The paper attempts to examine the changing nature of interrelationships between India and other selected countries in the wake of the 2007 US Financial crisis and the subsequent Euro Zone Debt crisis. Germany is taken to represent the Euro Zone. The paper uses the Forecast Error Variance Decomposition approach (FEVD) to examine the short term relationships between the countries. The results indicate that in the wake of the US crisis developed markets have become a more dominant player in explaining the variation of returns in India. India on the other hand is a dominant market in explaining variations in returns in other emerging economies.