The Impacts of Currency Market Liberalization and Options Trading on South Korea's Stock Market

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Abstract
In recent years, the emerging financial markets have attracted the attention of both investors and researchers due to their fast development and potential profit opportunities. This thesis uses time series models to analyze the impacts of currency market liberalization and options trading on South Korea's stock market. The thesis can be divided into two main parts. Part I is titled "Foreign Direct Investment, Exchange Rate Systems, and Stock Returns in South Korea." The objective of Part I is to analyze the relationships among exchange rate, foreign direct investment, stock returns, and inflation through a VAR model. In December 1997, during the peak of the Asian financial crisis period, the daily fluctuation limits for the interbank exchange rate were abolished, and South Korea's exchange rate system shifted to a totally free-floating mechanism. Part II is titled "The Impacts of Index Options Trading on Stock Price in South Korea." The objective of Part II is to analyze the price discovery on KOSPI200 index from its underlying assets - call and put options, and to investigate the relationships among these two markets.

Keywords: Currency market liberalization, Foreign direct investment, Stock returns, Inflation, Call volume, Put volume, Price discovery

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