The Dynamic Spillover Effects among Greater China Stock Markets: Evidence from China’s “B” Shares Experience

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ABSTRACT

The aim of this paper is to investigate the impact of CSRC allowing domestic residents to invest in the B-share stock market. We analyze whether there are different the volatility spillover effects and asymmetric effects in greater china area - the Shanghai A, Shanghai B, Hong Kong, and Taiwan stock markets during the pre- and post-event period via EGARCH model. The sample period spans from January 1, 1998 to December 31, 2004. Our results indicate that these four stock markets all have volatility spillover effects during pre-event period. The results also show that there are asymmetric effects in Shanghai B, Hong Kong, and Taiwan stock markets. However, the Shanghai A- and B-share has higher correlation and the Shanghai A and Hong Kong stock markets have no volatility spillover effect during post-event period. During the post-event period, only Taiwan has asymmetric effects. This result is consistent with the segmentation market theory. We therefore conclude that the CSRS by permitting domestic residents to invest in B shares will impact the Shanghai A- and B-share, Hong Kong, and Taiwan stock markets.

Keywords : Return spillover, Volatility spillover, EGARCH model

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