Westfälische Wilhelms-Universität Münster

Econometric Research in Finance Workshop 2016

Comments on

Dynamics of Integration in East Asian Equity Markets

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Main Message

The paper investigates the **dynamics of integration in** East Asian equity markets:

- It focuses on the **long-run trend** of the integration
- A **smooth-transition correlation (STC) GARCH model** is used
  - Multiple regimes - first two regimes, later three regimes

- Did the international integration of East Asian markets increase during 1995-2013?
- When and how did the increase occur?

Data and Markets

- **Data:** Daily equity indices for China, Hong Kong, Japan, and South Korea
  - Opening price (OP) and closing price (CP) (from Bloomberg)

- **Sample period:** 1995 – 2013

- **Three types of returns:**
  - commonly used equity returns (close-to-close returns or RCC):
    - : $RCCt = \log CPt - \log CPt\text{-}1$
  - trading-hours returns (open-to-close returns or ROC):
    - $ROCt = \log CPt - \log OPt$ 9
  - after-trading-hours returns (close-to-open returns or RCO):
    - $RCOt = \log OPt - \log CPt\text{-}1$

Key Findings

- East Asian equity market integration **among China** and other countries has increased **significantly since 2007**
- Integration among other East Asian equity markets **excluding China increased significantly between 1999 and 2001**
- Increasing integration has been mostly caused by **correlation increases in after-trading hours**
- Stock prices in **East Asia are sensitive to Europe and US stocks** because Europe and US investors were actively investing in East Asian stocks

Comments

- **Very interesting, rich paper**
- **Extensive econometric mythology**
- Minor comments:
  - Interim results → e.g. tables, that display interim results for a better accountability / understanding
  - Presentation of the data → summary statistics, graphs etc.