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Does the Introduction of Index Futures Stabilize Stock Markets? Further Evidence from Emerging Markets

Ali M. Kutan[a], Yukun Shi[b,*], Mingzhe Wei[b], and Yang Zhao[c,*]

[a] School of Business, Southern Illinois University

[b] Adam Smith Business School, University of Glasgow

[c] International Institute for Financial Studies and RCFMRP, Jiangxi University of Finance and Economics

Abstract

We examine how the introduction of index futures affects the stability of stock markets in seven emerging countries by studying the existence and the impact of positive feedback trading in both pre- and post-futures periods. Consistent with the findings in advanced markets, we find that positive feedback traders are already prevalent before the introduction of index futures in six out of the seven markets studied. After the introduction of index futures, signs of positive feedback trading emerge in only two markets (India and Poland). In contrast to the evidence in developed markets, positive feedback traders migrate from spot to futures markets in four markets, which suggests that the introduction of index futures may destabilize some emerging stock markets. Another interesting finding is that positive feedback trading becomes more intense when there is a market decline in the majority of the markets.
Keywords: emerging markets, feedback trading, stabilization, stock index futures

JEL classifications: G1; G15

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[*] Corresponding authors. Yukun Shi, Adam Smith Business School, University of Glasgow, West Quadrangle, Gilbert Scott Building, Glasgow G12 8QQ, UK. *E-mail address:* yukun.shi@glasgow.ac.uk. Yang Zhao, International Institute for Financial Studies and RCFMRP, Jiangxi University of Finance and Economics, Nanchang 330013, China. *E-mail address:* zhaoyang8@jxufe.edu.cn.

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