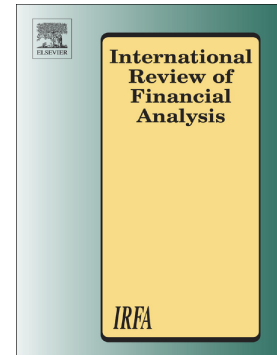


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Implied Volatility Indices: A Review and Extension in the Turkish Case

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Abstract

We re-visit the model-free methodology of the new VIX, and review how its counterparts are estimated empirically across the world. Then, we modify its parameter selection procedure for it to be compatible with the microstructure characteristics of emerging derivatives markets. Applying this approach on Turkish market data, we introduce VBI; the implied volatility index of Borsa Istanbul. Accordingly, (i) VBI is a strong predictor of the future realized volatility, (ii) it is significantly correlated with Turkey's own financial indicators, but not with many global financial indicators, (iii) there is an implied volatility spillover from US equity market to Borsa Istanbul, but not the other way around.

Keywords: VIX, Implied Volatility, Options Market, Emerging Markets, Market

Microstructure

JEL: F30, G13, G14

A part of this work was completed while the corresponding author was working at the Derivatives Market of Borsa Istanbul.

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