

Accepted Manuscript

Title: Modelling Asymmetric Conditional Dependence
between Shanghai and Hong Kong Stock Markets

Authors: Weiou Wu, Marco Chi Keung Lau, Samuel A. Vigne



PII: S0275-5319(17)30390-2
DOI: <http://dx.doi.org/doi:10.1016/j.ribaf.2017.07.050>
Reference: RIBAF 740

To appear in: *Research in International Business and Finance*

Received date: 7-6-2017
Accepted date: 3-7-2017

Please cite this article as: Wu, Weiou, Lau, Marco Chi Keung, Vigne, Samuel A., Modelling Asymmetric Conditional Dependence between Shanghai and Hong Kong Stock Markets. *Research in International Business and Finance* <http://dx.doi.org/10.1016/j.ribaf.2017.07.050>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Modelling Asymmetric Conditional Dependence between Shanghai and Hong Kong Stock Markets

Weiou Wu

Accounting, Finance and Economics Division

London South Bank University 103 Borough Road, London, SE1 0AA

United Kingdom

email: wuw6@lsbu.ac.uk

Marco Chi Keung Lau

Newcastle Business School ,Northumbria University

Newcastle upon Tyne, NE1 8ST

United Kingdom

email: chi.lau@northumbria.ac.uk

Samuel A. Vigne

Queen's Management School, Queen's University Belfast

BT9 5EE, Northern Ireland,

United Kingdom

email: s.vigne@qub.ac.uk

Abstract

This paper investigates the asymmetric conditional dependence between Shanghai and Hong Kong stock index returns, to assess the impact of the recent financial recession on Chinese equity markets using the Copula approach. We first propose methods for optimal model selection when constructing the conditional margins. The joint conditional distribution is then modeled by the time-varying copula, where the generalised autoregressive score (GAS) model of Creal, et al. (2013) is used to capture the evolution of the copula parameters. Upper and lower parts of the bivariate tail are estimated separately in order to capture the asymmetric property. We find the conditional dependence between the two markets is strongly time-varying. While the correlation decreased before the crisis, it increased significantly prior to 2008, pointing to the existence of contagion between the two markets. Moreover, we find a slightly stronger bivariate upper tail, suggesting the conditional dependence of stock returns is more significantly influenced by positive shocks in China. This finding is further confirmed by a test for asymmetry which shows that the difference between upper and lower joint tails is significant.

Keywords: Conditional Dependence; Tail Dependence; Copulas; Contagion

JEL: C22, G12

Download English Version:

<https://daneshyari.com/en/article/5107334>

Download Persian Version:

<https://daneshyari.com/article/5107334>

[Daneshyari.com](https://daneshyari.com)