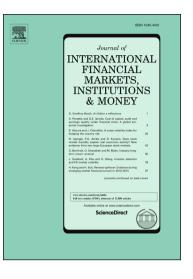
Accepted Manuscript

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Pavel Ciaian, Miroslava Rajcaniova, d'Artis Kancs

PII:	S1042-4431(17)30285-8
DOI:	https://doi.org/10.1016/j.intfin.2017.11.001
Reference:	INTFIN 998
To appear in:	Journal of International Financial Markets, Institu- tions & Money
Received Date:	22 June 2017
Accepted Date:	19 November 2017



Please cite this article as: P. Ciaian, M. Rajcaniova, d. Kancs, Virtual Relationships: Short- and Long-run Evidence from BitCoin and Altcoin Markets, *Journal of International Financial Markets, Institutions & Money* (2017), doi: https://doi.org/10.1016/j.intfin.2017.11.001

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ACCEPTED MANUSCRIPT

Virtual Relationships: Short- and Long-run Evidence from BitCoin and Altcoin Markets¹

Pavel Ciaian^{ϕ}, Miroslava Rajcaniova^{$\psi \gamma$}, d'Artis Kancs^{ϕ}

*European Commission (DG JRC)
*Slovak University of Agriculture (SUA)
^γUniversity of West Bohemia (UWB)

Abstract: This study empirically examines interdependencies between BitCoin and altcoin markets in the short- and long-run. We apply time-series analytical mechanisms to daily data of 17 virtual currencies (BitCoin + 16 alternative virtual currencies) and two Altcoin price indices for the period 2013-2016. Our empirical findings confirm that indeed BitCoin and Altcoin markets are interdependent. The BitCoin-Altcoin price relationship is significantly stronger in the short-run than in the long-run. We cannot fully confirm the hypothesis that the BitCoin price relationship is stronger with those Altcoins that are more similar in their price formation mechanism to BitCoin. In the long-run, macro-financial indicators determine the altcoin price formation to a greater degree than BitCoin does. The virtual currency supply is exogenous and therefore plays only a limited role in the price formation.

Key words: BitCoin, altcoins, virtual currencies, price formation, supply, demand, macroeconomic development.

JEL classification: E31; E42; G12

CCK

¹ We gratefully acknowledge financial support received from the Slovak Research and Development Agency under the contract No. APVV-15-0552 and VEGA 1/0797/16. The authors are solely responsible for the content of the paper. The views expressed are purely those of the authors and may not in any circumstances be regarded as stating an official position of the European Commission.

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