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Jumps in Financial Markets: A New Nonparametric Test and Jump Dynamics

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Abstract

This article introduces a new nonparametric test to detect jump arrival times and realized jump sizes in asset prices up to the intra-day level. We demonstrate that the likelihood of misclassification of jumps becomes negligible when we use high-frequency returns. Using our test, we examine jump dynamics and their distributions in the U.S. equity markets. The results show that individual stock jumps are associated with prescheduled earnings announcements and other company-specific news events. Additionally, S&P 500 Index jumps are associated with general market news announcements. This suggests different pricing models for individual equity options versus index options.

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