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Price discovery in the hang seng index markets: Index, futures, and the tracker fund

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PDF

Abstract

In this paper, price discovery among the Hang Seng Index markets is investigated using the Hasbrouck and Gonzalo and Granger common-factor models and the multivariate generalized autoregressive conditional heteroskedasticity (M-GARCH) model. Minute-by-minute data from the Hang Seng Index, Hang Seng Index futures, and the tracker fund show that the movements of the three markets are interrelated. The futures markets contain the most information, followed by the spot market. The tracker fund does not contribute to the price discovery process. The three markets exhibit spillover effects, indicating that their second moments are linked, even though the flow of information from the tracker fund to the other markets is minimal. Overall results suggest that the three markets have different degrees of information processing abilities, although they are governed by the same set of macroeconomic fundamentals. © 2004 Wiley Periodicals, Inc. Jrl Fut Mark 24:887–907, 2004

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