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Review of Financial Economics / Volume 3, Issue 1 / pp. 89-102

Article

DOES THE OCTOBER 1987 CRASH STRENGTHEN THE CO-MOVEMENTS AMONG NATIONAL STOCK MARKETS?

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First published: 01 September 1993

https://doi.org/10.1002/j.1873-5924.1993.tb00574.x

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Abstract

This study examines the effect of the October 1987 crash on the co-movements among national stock markets. Interrelationships among the price movements in different national stock markets are analyzed using correlation and exploratory factor analysis. The data on weekly returns of 12 national stock market indices over the period from August 1984 to December 1990 are used in both local-currency and U.S. dollar terms for the analysis. This study finds that national stock markets became more interrelated after the crash, and the strengthening co-movements among national stock markets continued for a longer period after the crash. In addition, it is shown that the co-movements among national stock markets were stronger when the U. S. stock market was more volatile. These results imply that after investors experienced the October crash, they tend to give more weight to international factors in making investment decisions after the crash than before.

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