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?

Sang Bin Lee, Kwang Jung Kim

First published: 01 September 1993
https://doi.org/10.1002/j.1873-5924.1993.tb00574.x
Citations: 221

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.

References

Alcorn, S.R. 1988. Institutional Investors Find Comfort in Cash. Wall Street Journal (October 12): cl.

Google Scholar

Agmon, T. 1972. Interrelationships Among Equity Markets: A Study of Share Price Movements in the United States, United Kingdom, Germany and Japan. *Journal of Finance* **27** (September): 839–855.

Web of Science® Google Scholar

Benett, P. and J. Kelleher. 1988. The International Transmission of Stock Price Disruption in October 1987. *FRBNY Quarterly Review* **13**: 17–33.

Google Scholar

Bertero, E. and C. Mayer. 1989. *Structure and Performance: Global Interdependence of Stock Markets around the Crash of October 1987*. Discussion paper No. 307, Center for Economic Policy Research, City University Business School, London.

Google Scholar

De Bondt and R. Thaler. 1985. Does the Stock Market Overreact?. *Journal of Finance* **40** (July): 793–808.

Web of Science® Google Scholar

Eun, C. and S. Shim. 1989. International Transmission of Stock Market Movements. *Journal of Financial and Quantitative Analysis* **24**: 24–56.

Google Scholar

Hamao, Y., R. Masulis, and V. Ng. 1990. Correlations in Price Changes and Volatility across International Stock Markets. *The Review of Financial Studies* **3**: 281–307.

Web of Science® Google Scholar

Hilliard, J. 1979. The Relationship between Equity Indices on World Exchanges. *Journal of Finance* **34** (March): 103–114.

Web of Science® Google Scholar

King, M. and S. Wadhwani. 1990. Transmission of Volatility between Stock Markets. *The Review of Financial Studies* **3**: 5–33.

Web of Science® Google Scholar

Lessard, D. 1973. International Portfolio Diversification: A Multivariate Analysis for a Group of Latin America Countries. *Journal of Finance* **28** (July): 619–633.

Web of Science® Google Scholar

Lessard, D. 1976. World, Country and Industry Relationships in Equity Returns: Implication for Risk Reduction through International Diversification. *Financial Analyst Journal* **32** (Jan/Feb): 32–38.

Google Scholar

Meric, I. and G. Meric. 1989. Potential Gains from International Portfolio Diversification and Intertemporal Stability and Seasonality in International Stock Market Relationships. *Journal of Banking and Finance* **13**: 627–640.

Web of Science® Google Scholar

Neumark, D., P.A. Tinsley, and S. Tosini. 1991. After-hours Stock Prices and Postcrash Hangovers. *Journal of Finance* **46** (March): 159–178.

Web of Science® Google Scholar

Panton, D., V. Lessig, and O. Joy. 1976. Comovement of International Equity Markets: A Taxonomic Approach. *Journal of Financial Quantitative Analysis* **11**: 415–432.

Web of Science® | Google Scholar

Philippatos, G.C., A. Christofi, and P. Christofi. 1983. The Intertemporal Stability of International Stock Market Relationships: Another View. *Financial Management* **12**: 63–69.

Web of Science® | Google Scholar

Ripley, D. 1973. Systematic Elements in the Linkage of National Stock Market Indices. *The Review of Economics and Statistics* **55**: 356–361.

Web of Science® | Google Scholar

Roll, Richard. 1988. R^2. *Journal of Finance* **43** (July): 541–566.

Web of Science® | Google Scholar

Schwartz, G. 1978. Estimating the Dimension of a Model. *Annals of Statistics* **6**: 461–464.

Web of Science® | Google Scholar

Shiller, Robert J. 1981. Do stock Prices Move Too much to be Justified by Subsequent Changes in Dividends?. *American Economic Review* **71**: 421–436.

Web of Science® | Google Scholar

Shiller, Robert J. 1989. *Market Volatility.* Cambridge, Massachusetts: The MIT Press.

Google Scholar

Siconolfi, M. 1988. Mutual Funds' Sales and Services Erode in Wake of the Crash. Wall Street Journal (October 12): A1, A5.

Google Scholar

Slovic, P. 1972. Psychological Study of Human Judgment: Implications for Investment Decision Making. *Journal of Finance* **27** (September): 779–799.

Web of Science® | Google Scholar

Citing Literature

Download PDF