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/ Co-movement of Bangladesh stock market with other markets: Cointegration and error correction approach

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Co-movement of Bangladesh stock market with other markets: Cointegration and error correction approach

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Abstract

Purpose

The purpose of this paper is to explore dynamics of stock price movements of an emerging market, Bangladesh with that of USA, Japan and India.

Design/methodology/approach

The long-term relationships among the markets are analyzed using the Johansen and Juselius multivariate cointegration approach. Short-run dynamics are captured through vector error correction models. Further investigation on short-run dynamics is carried out through impulse response analysis.

Findings

There is evidence of cointegration among the markets demonstrating that stock prices in the countries studied here share a common stochastic trend. Impulse response analysis shows that shocks to the US market do have an impact on the Bangladesh market. The evidence of Bangladesh stock market responding to shocks in the Indian market is weak. Shocks to the Japanese market do not generate a response in the Bangladesh market.

Research limitations/implications

As these markets share a common stochastic trend no diversification benefit is possible from cross-border investments. Investors could further enhance their

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The evidence of cointegration and the short run dynamic relationship help investors in making efficient investment decisions in the Bangladesh stock market.

Keywords

Bangladesh

Stock markets

Capital markets

Stock prices

Globalization

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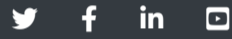
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