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Which way does water flow? An econometric analysis of the global price integration of water stocks

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Abstract

Around the world, water is becoming a scarce resource. Shortage of water has led to a massive loss of funds - billions of dollars - and has caused a loss of knowledge in the global water markets. The lack of information on the interdependence of water markets based on the analysis of interdependence quickly responds to shocks from each other and completes its response within 3 days.

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Hence, for water investors, international diversification that is undertaken just within the water sector will not be beneficial. The result also implies that there is the risk of crossmarket contagion – that is, price volatility spill over across water sectors of different financial markets, and therefore, water authorities in one market should take cognisance of events in other markets.

Q Keywords: water finance environmental finance financial market integration vector autoregression variance decomposition impulse response

Q JEL Classification:: Q25 C32 G15

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Notes

¹ As argued by Kenen ([1976](#)): ‘... integration refers to the degree to which participants in any market are enabled and obliged to take notice of events occurring in other markets. They are enabled to do so when information about those events is supplied into the market. They are obliged to do so when it is in their own self-interests ...’.

² The common measure of integration is the degree of cross-market price movements (see Kenen, p. 9).



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