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Calendar anomalies and stock market volatility in selected Arab stock exchanges

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Abstract

While seasonal effects for both advanced and emerging markets have been investigated extensively in mean and variance equations, Arab region asset markets have received much less attention. The objective of this article is to fill this gap in the literature by investigating the day-of-the-week effect in 12 major Arab stock markets using Arab Monetary Fund (AMF) daily index returns from May 2002 to December 2005. Our estimation strategy utilizes Autoregressive (AR) and Generalized Autoregressive Conditional Variance (GARCH) models. The results show that the day-of-the-week effect is significant in all 12 markets. The magnitude of the effect varies across markets. The day-of-the-week effect is positive in all markets. The magnitude of the effect is highest in the Arab Monetary Fund (AMF) daily index returns. Finally, the results show that the day-of-the-week effect is significant in all 12 markets.

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Notes

- ¹ A common occurrence in which stock returns tend to be negative Friday through Monday.
- ² A general increase in stock prices during the month of January. This rally is generally attributed to investors buying stocks that have dropped in price following a sell-off at the end of December by investors seeking to create tax losses to offset any capital gains.
- ³ The four markets are Abu-Dhabi market in UAE (3 May 2004 to 31 December 2004), Doha market in Qatar (23 August 2004 to 31 December 2005), Dubai market in UAE (3 May 2004 to 31 December 2005) and Palestine market (1 January 2005 to 31 December 2005).
- ⁴ The market of Dubai in UAE exhibits the highest risk-return schedule among all markets. Again, this may be attributed to the short sample period covered for this market.
- ⁵ The reason for not including all trading days is to avoid the dummy variable trap which gives rise to perfect collinearity among the dummy variables and the constant term (Greene, [1997](#)).
- ⁶ For a list of the excluded trading days in each market, see [Table 3](#).
- ⁷ It is straightforward to show that Bollerslev's (1986) GARCH model is based on the infinite ARCH model introduced by Engle ([1982](#)).
- ⁸ The GARCH LM test is a Lagrange Multiplier test to examine whether the standardized residuals
- ⁹ The Risk distribution is skewed to the right and is leptokurtic. The null hypothesis of a constant plus an AR(1) process is rejected,
- ¹⁰ Similar results are obtained in Apollinario et al. ([2006](#)).

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11 D_{Fri} was excluded since it has no significant variable coefficients.

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