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The impact of sudden changes on the persistence of volatility: evidence from the BRIC countries

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existing in the financial time series. These results have important policy implications for the financial market participants and policy makers.

Notes

¹This phenomenon is called volatility clustering, where in the situation of high volatility followed by higher volatility.

²See Purushothaman and Wilson (2003).

³See for example, Malik (2003), Malik and Ewing (2005), Fernandez (2006), Wang and Moore (2009) and Hammoudeh and Li (2008).

⁴To save space, we do not report the estimated dates of sudden changes in each market. The results are available from the author upon request. 36 change points were detected for the Brazilian stock market. The dates of sudden changes are mostly clustered around 1997 and 1998. The Asian and Russian financial crises occurred in 1997 and 1998, respectively. Hence, the results indicate that most of the changes in volatility in the Brazilian stock market were related to the occurrence of major X 001 also econom caused related to the loca nange points 03 and were de ic and 2004. Th political 01 on the he break volatility e is also a date sudde le for the Chinese stly by the ne of the major gl findings dez (<u>2008</u>). ⁵Followii mine which breakpo affect persistence m unes: once

without points of sudden change, once with all of the sudden changes identified by the ICSS process and finally once by taking only significant breakpoints in variance into account. Because the degrees of persistence in volatility in both models (with all breakpoints and with only significant ones) are very similar, we only report the results of the GARCH model with all breakpoints.

⁶ ARCH-LM tests were performed on the standardized residuals from the both GARCH models. The results of tests suggest no ARCH effects in the residual series from the models. The Ljung-Box statistics also reveal that there is no autocorrelation in the residual series.



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