Apr 22nd, 10:00 AM - 4:00 PM

# The Effect of Economic Linkages Between Nations on the Co-Movement of Their Stock Markets

Niveditha Hasthak
*Illinois Wesleyan University*

Pam Lowry, Faculty Advisor
*Illinois Wesleyan University*

# THE EFFECT OF ECONOMIC LINKAGES BETWEEN NATIONS ON THE CO-MOVEMENT OF THEIR STOCK MARKETS

Niveditha Hasthak and Dr. Pam Lowry*, Department of Economics, IWU

This study seeks to determine the extent to which stock market co-movements between pairs of countries reflect the real economic linkages between the respective countries. There are many theoretical explanations as to why equity markets in different countries can be expected to move together. It is hypothesized that pairs of nations with greater economic linkages (in the form of bilateral trade flows, cross-border direct investment and bilateral capital flows) will have greater correlations in their stock market prices. The study uses multiple regression analysis on correlation coefficients between pairs of national stock indices. The correlation coefficients are used as a measure of the co-movement of stock prices between 2 markets. Some of the economic variables used to explain the correlations are the value of bilateral trade, cross border investment and interest rate differentials. The effect of the relative stage of the business cycle the nations are in, is also examined. Nine countries are included in the study.