

Is this time different for Asia?

Evidence from stock markets

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Abstracts:

The recent sub-prime crisis affected Asian economy initially to the comparable degree to 1997 Asian crisis although the epicenter of the crisis is different in two crises. We investigate whether the effect of sub-prime crisis on 12 Asian economies is similar to previous crisis by examining changes in volatility spillover between the US and Asian economies. The empirical evidence indicates two stark differences between these two crises. First, volatility spillovers in terms of correlation declined during financial turmoil for some countries in both crisis. This decline in correlation is more pervasive for Asian crisis period. Second, transition in correlation takes place well in advance of the largest impact of September 2008 in sub-prime crisis while it occurred after July 1997 in Asian crisis. This result is indicative of market participants' awareness for the upcoming stock market crash well before the collapse of government sponsored enterprises and investment banks.

Keywords: Asia; Contagion; Financial crisis; Stock market integration; Spillover.

JEL classification codes: F31; F36; G15.

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