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A Study of the Behavior of Three Major Markets

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Abstract:

There has always been a great interest in learning about changes in the volatility patterns of stocks and other time series due to exogenous shocks. Researchers in financial economics and investors have also been curious to study the effect of unanticipated shocks on persistence of volatility over time. This paper studies three major stocks indexes (from US, Germany, and UK) and utilizes an algorithm to capture time periods of sudden changes in volatility. The findings of this paper suggest that the persistence of shocks to volatility is not as high as it is perceived to be when the volatility shifts are incorporated into the model. This research has important implications for investors and financial managers.

JEL Classification: G

Key Words: Volatility, Time Series, Financial Economics

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