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EFFECT OF MACRO VARIABLES ON STOCK MARKET VOLATILITY: A CASE STUDY OF SOUTH ASIAN COUNTRIES

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ABSTRACT

Emergence of globalisation has made market more opportunistic and complex as well. Every market is globalising for the improvement, expansion, restructuring and for other earning opportunities in an international market. Though, the globalisation creates various opportunities for every market, it also welcomes various macro challenges and threats aroused from financial and political issues, policies, legal issues, government rules, cultural issues and market uncertainties etc., which vary from one country to another. These macro factors may affect and may increase the complexity in the trading process of every market including stock market. The paper examines the effect of macro variables like Inflation, Exchange rate and Index of Industrial Production on the volatility of respective Stock Exchanges of selected South Asian countries like China, India, Pakistan and Sri Lanka. To analyse the effect of Macroeconomic variables on Stock Market Returns Volatility, a modified ARCH/GARCH models have been used. Also to examine the more dynamic effect of the variables and accuracy in the results, a Panel Analysis has been done. The GARCH effect shows that different countries Stock Exchanges have different attitude towards each Macro-variables, whereas the GMM Approach of Dynamic Panel Analysis explains, that Exchange rate and Inflation rate requires more attention of market participants while dealing with Stock markets.

***Keywords**: Macroeconomic variables, Stock Market Volatility, ARCH/GARCH and Panel Estimation.*