

TECHNICAL SESSION-8: INSTITUTIONS AND GOVERNANCE REFORMS

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Paper Title: Preferred Habitat and Monetary Policy Spillovers: Evidence from Inter-Market Dynamics in Pakistan
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Abstract: This study contributes to an understanding of the applicability of a preferred habitat model to describe inter-market transmissions of mean returns and price volatility transmission effects. The term “preferred habitat” in this paper means the regional market for equities in Pakistan which was the venue for the initial public offering. In particular, we examine the question of whether returns in one market are systematically transmitted to the returns in other markets. Among the factors we consider are the influence, if any, of changing interest rate policies, US dollar exchange rates and local inflation. We apply the generalised autoregressive conditional heteroskedasticity process, usually referred to by its acronym GARCH, developed in 1982 by Robert F. Engle. GARCH describes an approach to estimate volatility in financial markets. We apply the GARCH-Dynamic Conditional Correlations (DCC) and a Markov Switching Model to test hypotheses pertaining to inter-market transmissions of mean returns and variances of returns. Our findings show that there are statistically significant interlinkages between monetary policy and measures of stock market performance. The findings in this paper may be of interest to regulatory authorities tasked with assessing and perhaps influencing the systematic relationship between monetary policy and inter-market transmissions of performance.