

Nexus of Pakistan Stock Exchange with World's Top Five Stock Markets after Launching China Pakistan Economic Corridor

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Abstract : Stock markets are fascinating more and more conductive to each other due to liberalization and globalization trends in recent years. China Pakistan Economic Corridor (CPEC) has dragged Pakistan stock exchange to the new heights and global investors are making investments to reap its benefits. So, in investors and government perspective, the study focuses co-integration of Pakistan stock exchange with world's five big economies i-e US, China, England, Japan, and France. The time period of study is seven years i-e 2010 to 2016 and daily values of major indices of corresponding stock exchanges collected. All variables of that particular study are stationary at first difference confirmed by unit root test. The study Johansen system co integration test for analysis of data along with Granger causality test is performed for result purpose. Co integration test asserted that Pakistan stock exchange integrated with Shanghai stock exchange (SSE) and NIKKEI stock exchange in short run. Granger causality test also proclaimed these results. But NASDAQ, FTSE, DAX not co integrated and Granger cause at a short run but long run these markets are bonded with Pakistan stock exchange (KSE). VECM also confirmed this liaison in short and long run. Investors, therefore, need to be updated regarding co-integration of world's stock exchanges to ensure well diversified and risk adjusted high returns. Equally, governments also need updated status so that they could reduce co-integration through multiple steps and hence drag investors for diversified investment.

Keywords : CPEC, DAX, FTSE, liberalization, NASDAQ, NIKKEI, SSE, stock markets

Conference Title : ICMBEF 2017 : International Conference on Management, Business, Economics and Finance

Conference Location : Chicago, United States

Conference Dates : October 26-27, 2017