Berichte aus der Betriebswirtschaft

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A Comparative Analysis of Efficiency and Functioning of Capital Markets from Germany, Poland and Hungary

Shaker Verlag
Aachen 2004

Bibliographic information published by Die Deutsche Bibliothek
Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the internet at http://dnb.ddb.de.

Zugl.: Frankfurt /Oder, Univ., Diss., 2004

Printed in Germany.

ISBN 3-8322-2930-2
ISSN 0945-0696

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen
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A COMPARATIVE ANALYSIS OF EFFICIENCY AND FUNCTIONING OF CAPITAL MARKETS FROM GERMANY, POLAND AND HUNGARY

Abstract

The enlargement of European Union brings for both academics and financial practitioners the need for scientific insights concerning not only the relative informational efficiency but also the joint functioning of capital markets of old and new members. By using some of the latest financial and econometric techniques this book provides new empirical findings that can be very useful for gauging the progress of transition and integration of Poland and Hungary as well as for examining investment and diversification opportunities in the region.

The informational efficiency of stock markets from Germany, Poland and Hungary is investigated using several perspectives. The random walk hypothesis as well as a long-range dependence hypothesis is tested. The impact of a potential mean-reversion component over stock price movements is also studied by estimating a multivariate representation of stock prices and nominal interest rates and performing a decomposition of price changes into temporary and permanent components. Further, the extreme value theory and the comparison of correlation patterns allow an appraisal of the efficacy of an international portfolio diversification over these markets. In the last part, the efficiency and functioning of index futures and stock markets are comparatively investigated. Tests for cointegration between futures and spot prices and the estimation of a vector error correction model with returns from both markets enable a broad examination of the effectiveness of arbitrage linkages and the reaction of prices to new information.