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Volatility Spillover Effect with Time-Varying Parameters Between Bist100 And Dow-Jones Under Different Regimes

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ABSTRACT

The aim of this study is to analyze the spillover effect of Dow-Jones index on BIST100 index under different regimes over the period of 01.01.2002-31.03.2017. We used weekly stock market returns relating to the mentioned stock markets. We obtain the volatility of so-called stock markets via GAS model which includes time-varying parameters. In the study, volatility spillover effect is examined using Markov Switching regression. Thus, we compare this effect for low volatility regime and high volatility regime. It follows from the analysis that there is positive volatility spillover effect Dow-Jones to BIST100 under both regimes. However, the effect size is higher in low volatility regime than in high volatility regime.

KEYWORDS Volatility Spillover Effect; Markov-Switching Regression; GAS Model

JEL G15, G17, C34, C58