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Asymmetric Stochastic Volatility in Nordic Stock Markets

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ABSTRACT

The goal of this paper is to investigate the asymmetric impact of innovations on volatility and the relationship between the stock return and volatility dynamics in the case of Nordic stock markets using the framework of asymmetric stochastic volatility models. The empirical findings provide strong evidence of asymmetry, significant and high volatility persistence in the stock markets of the Nordic region. The most interesting and different results obtained from the present paper are that there are both of a low variability of volatility and a high volatility persistence in the stock markets of Denmark, Finland, Norway and Sweden. Additionally, the stock markets of the Denmark, Finland, Norway and Sweden, which have leverage effect, have lower variability of volatility and in these markets the future volatility is relatively certain.

KEYWORDS Asymmetric Stochastic Volatility; MCMC; Nordic Stock Markets

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