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Interaction Between Futures Markets and Spot Markets: A Study for the Turkish Derivatives Exchange

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ABSTRACT

One of the most important changes in the world of finance in the past decades has been collapsed of the Bretton Woods System. After the collapse of this system, the existence of financial risks have created a demand for new financial techniques. Although it is not possible to completely eliminate the financial risks, new financial techniques were developed to control and to lower the risks. Financial derivatives are important tools for risk management. Nowadays to avoid from risk and to manage risk, derivatives markets have become widespread not only in developed countries but also developing countries like Turkey. One of the fundemantal problems of the Turkish financial market is high volatility. The modelling of any interaction between the spot and futures markets constitutes a great importance with regard to determining the direction of information flow in these markets, price formation and risk measuring. The aim of this study is to empirically investigate how index futures contracts traded in the Turkish Derivatives Exchange operating since February 2005 affect the price volatility in the spot stock market using ARCH-GARCH models.

KEYWORDS Futures and Spot Markets; Arch-Garch; Turkdex

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