

Abstract

In this thesis, we study the return and volatility spillovers between forex and stock markets in Scandinavian countries employing recently developed methodology of spillover indices. Those measures are based on forecast error variance decomposition of generalized vector autoregressive (GVAR) model. This allows us to estimate both total and directional spillovers. Moreover, frequency connectedness analysis is conducted by decomposing the spillover indices into frequency bands, corresponding to short-, medium- and long-run connectedness. We used daily data for major stock market indices and exchange rates of domestic currency towards US dollar for Norway, Sweden, Denmark and Finland. Our data spans from February 2002 till July 2018 that covers turmoil periods of global financial crisis in 2007-2009, European sovereign debt crisis 2010-2013 and Brexit referendum in mid 2016. Our empirical analysis reveals that Norwegian financial markets do not contribute much to both return and volatility spillovers. On the other hand, euro and Danish FX market perform very similarly, by exhibiting the highest spillover contributions for both returns and volatility. Furthermore, distinct increasing trends in spillovers are revealed during the turmoil periods for most of the markets. From frequency connectedness analysis, we inspect high short-run return connectedness for the whole period of time. For volatility, short-run connectedness is prevailing over long-run in normal times, while the pattern inverses during turmoil periods.

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