

This thesis examines whether currency exchange rate changes play any role in determination of stock market volatility in the EU's New Member states. Using the daily data of six Central and Eastern European countries, we run a GARCH model including the exchange rate variable into the volatility equation. Using a TAR model we also examine whether the magnitude of stock market volatility depends on the direction of last innovation. The results suggest that an exchange rate depreciation will boost stock market volatility in Czech Republic, Hungary and Poland, whereas the same applies for currency appreciation in Romania. The various results for various countries are in line with the previous research.