Abstract

In this thesis, we aim to find the effect of economic crisis announcements arising from the US subprime mortgage crisis and European sovereign debt crisis on the market volatility in the BRIC countries. We implement a GARCH model in order to compare the effect of individual news announcements and find that the US crisis had a bigger impact on BRIC market volatility than the European crisis. Of particular note, we find the US bailout had a higher impact than the failure of Lehman Brothers or any European crisis dates that were considered. We then examine the volatility transmission mechanism by implementing a VAR model to create a spillover index. Following, we apply a rolling window approach, creating spillover plots which show that both return and volatility spillovers are affected by crisis announcements. The importance of our results are related to investor decision making, particularly the relationship between market return and risk in developing country markets. Far to our knowledge, no recent literature has compared the two crises in the way we have nor with the datasets we have used.