

Examining the Impact of Coronavirus on Stock Markets: Investigating the Cointegration and Transmission of Shocks between China and World Largest Stock Markets

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Abstract:

Study focal point is to access the financial aspects of Coronavirus on China and the world's largest stock markets by analyzing the cointegration and the transmission of shocks from the Chinese stock market to the whole world. This study employs Unit root test, Johansen cointegration test, vector error correction model, Granger causality test, variance decomposition and impulse response function test, to find the long-run and short-run relationship and transmission of shocks for the period from January 2012 to March 2020. Findings of the study observe the long-run relationship between stock markets. The short-run results reveal that the previous day's stock prices of Hong Kong and the United States stock market show a positive relationship with China stock market. Granger causality results show only unidirectional long-run causality running from UK, Hong Kong, and Japan. Short-run causality results indicate the bi-directional causality among China and other major stock markets.