

EGARCH Variance Structures and News

-The Six Asian Emerging Markets-

by

Tatsuyoshi Miyakoshi

Institute of Policy and Planning Sciences, University of Tsukuba

Tsukuba, Ibaraki 305-8573, JAPAN

Abstract

Lamoureux and Lastrapes (1990) suggested that the current information flow expressed by the AR process produces the return volatility. If their opinion is correct, unexpected parts of current information, i.e., “News”, make the ARCH effect powerless and then the ARCH is not valid in the news-full markets. The paper finds that the inclusion of the current information in EGARCH specifications eliminates the ARCH effect for Thailand and Indonesia markets during Jan 1995 and Apr 2000. Furthermore, the paper finds the qualitative and quantitative relationships between the News and the inefficacy of the EGARCH: The high positive correlation between the magnitude of the News and the squared error of return and variance. The news-full markets are for Thailand and Indonesia during the whole periods and the news-full markets are corresponding to the inefficiency of the model.