

Geographical Changes in Influence of Stock Trading Centres Around the 2007 Global Financial Crisis

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Abstract:

This paper analyses the evolution of interdependence and relative influence of major international stock markets in the three main geographical regions of Europe, USA and Asia around the Global Financial Crisis (GFC) of 2007. Using the Foreign Information Transmission (FIT) model of Ibrahim and Brzeszczyński (2009), we investigate changes in both the direct and the indirect channels of stock returns signals transmission mechanisms across the three major geographical securities trading centres in London, New York and Tokyo. We further measure the impact of different factors on market interdependence patterns through the indirect channels. The results indicate that the influence of the US market has weakened after the GFC, while the role of the main trading centres of the other two regions has strengthened over time. These findings are consistent with a concept of the geographical shift in the balance of economic powers between countries.

Keywords: Stock Markets Interdependence, Global Financial Crisis (GFC), Meteor Shower Effects, Foreign Information Transmission (FIT) model