SHORT AND LONG RUN PARAMETRIC DYNAMICS IN THE BALKANS STOCK MARKETS

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This paper examines dynamics between the behaviour of the emerging Balkans stock markets, namely Romania, Bulgaria, Serbia, FYROM, Turkey, Croatia, and Albania and mature stock markets, particularly US, UK, Germany, and Greece. We use linear (error correction vector autoregressive model) and non – linear (switching regime error correction models) estimation methods to test for possible linkages between the Balkans and developed markets. Our findings show that (i) the Balkans markets display equilibrium relations with their mature counterparts, supporting the hypothesis that there are interdependencies between emerging and developed stock markets, which limit the potential for portfolio diversification by investing in different Balkans markets; (ii) an active strategy provides more potential to create exceptional returns than a passive strategy.

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