One data, one break?

ABSTRACT

This paper demonstrates that the conventional approach of using official liberalisation dates as the only existing breakdates could lead to inaccurate conclusions as to the effect of the underlying liberalisation policies. It also proposes an alternative paradigm for obtaining more robust estimates of volatility changes around official liberalisation dates and/or other important market events. By focusing on five East Asian emerging markets, all of which liberalised their financial markets in the late, and by using recent advances in the econometrics of structural change, it shows that (i) the detected breakdates in the volatility of stock market returns can be dramatically different to official liberalisation dates and (ii) the use of official liberalisation dates as breakdates can readily entail inaccurate inference. In contrast, the use of data-driven techniques for the detection of multiple structural changes leads to a richer and inevitably more accurate pattern of volatility evolution emerges in comparison with focussing on official liberalisation dates.

Keyword: Financial liberalization; Volatility; Structural changes; Breaks