Detecting shift and pure contagion in East Asian equity markets: A Unified Approach

Thomas J. Flavin\textsuperscript{a}, Ekaterini Panopoulou\textsuperscript{b}

\textsuperscript{a}Department of Economics, NUI Maynooth, Maynooth, Co. Kildare, Ireland
\textsuperscript{b}Department of Statistics and Insurance Science, University of Piraeus, Greece

Abstract

We test for contagion between pairs of East Asian equity markets over the period 1990-2007. We develop an econometric methodology that allows us to test for both ‘shift’ and ‘pure’ contagion within a unified framework. Using both Hong Kong and Thailand as potential shock sources, we find strong evidence of both types of contagion. Therefore during episodes of high-volatility, equity returns are influenced by changes in the transmission of common shocks and additionally by the diffusion of idiosyncratic shocks through linkages which do not exist during normal times.

Keywords: Shift contagion; Pure contagion; Financial market crises; Regime switching

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