Contagion Effect from Eurozone through Thailand on Stock Markets, SVAR Framework

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June 2012

ABSTRACT

This paper aims to explore the contagion effect between stock markets especially the impact from Eurozone to Thailand in the context of overall contagion effect during the years 2000-2012. To explore this effect, this paper sets up the structure on Vector Autoregressive model or SVAR model by using simple Cholesky decomposition as a restriction, then, solve for the contagion effect. However, there are two types of contagion effects combined in the overall contagion effect. Therefore, a principal index of macroeconomic factors is constructed by weighting Principle Component Analysis (PCA) to control the economic factors. This method helps to distinguish both contagion effects from overall contagion effect. Finally, impulse response analysis is used to answer the question. The results show that there are contagion effects in financial market from Eurozone and other major trading partners of Thailand through Thailand on both models. The effects take four to five working days before ease off for financial markets in daily investment market model. For fundamental-based contagion effects in monthly macroeconomic model, they take around 4 months to be eased off.

Keywords: Structural Vectorautoregressive; Contagion Effect; Principle Component Analysis