

Asymmetric Impact of Financial Crisis on Stock Exchange of Malaysia and Pakistan

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Abstract:

First time global financial crisis were started from US and then it were spread in all over the world .This crisis were largest crisis of the world after the 1930s.The basic aim of this paper is to analysis the financial crisis impact on stock market performance of Pakistan and Malaysia. For this purpose, collected the data from 2003 to 2010 and applied EGARCH model .this research is showing that negative shocks have more pronounced impact on performance of both countries. This is more impact on Malaysia stock market .our suggested that Government should have focused on such types of issues that in the scenario how can control economy.

Keywords: financial crisis, Malaysia, EGARCH, Performance.

Introduction:

In the modern world, financial system is known as the integral part of entire economy. It has main role for the transfer of funds. Most of studies have been proved that equity market is backbone of the economy. According to Levine and Zervos (1996) there is positive relationship between stock market and growth. Stock markets are beneficial for providing finance to lacking sectors. According to Omet (2002) stock market is also helpful for sharing risk. There are found very complicated aspects of stock markets .It are seen that stockmarketes are very sensitive in case of national and international events .Stock market is also known as the name of yardstick .It also act as barameter that respond to negative events and political instability. Negative events that become caused of volatility in stock prices .stock prices volatility influence on the confidence of investors. Pakistan and Malaysia are known as world famous countries in subcontinent .Pakistan has three stock exchange which has always main role in development of country .Karachi stock exchange is known as the leading stock exchange of world. It was first time established in 1947 and it is known as oldest stock exchange of Pakistan .In 1970, Lahore and Islamabad stock exchanges were come into existence. According to Sen (2016) Karachi stock exchange is known as prominent and most leading stock exchange of world due to its trade. Therefore, it is prominent in all over the world .Bursa stock exchange is also known as oldest stock exchange of Malaysia .It was formed with the name of Native share. Malaysian stock market has dominant role in Malaysian equity market .The main objective of this paper is to find out the impact of global financial crisis on stock markets of Pakistan and Malaysia .For checking impact of financial crisis on stock exchange of Malaysia and Pakistan, we applied E-RACH model and taken the results that financial crisis is caused of disturbing the performance of both stock markets .Financial crisis were being affected on financial position of assets, it has also impact of nominal values of assets. Financial crisis are showing their impact on bubbles, stock markets and banking sectors. In the 17th century, financial crisis had lost paper wealth and it was destroying real economy. There are several reasons of financial crisis 1) mark to market accounting2) rating agencies3) infighting among financial regulators4) securities of loans5) credit default swap6) economic ideology .There are some different types of financial crisis1) banking crisis2) currency crisis3) international financial crisis 4) wider economic crisis.

Financial crisis impact of main components of economy:**Figure no 1;****Objectives:**

- 1) Impact of financial crisis on stock market of Pakistan.
- 2) Impact of financial crisis on stock market of Malaysia.

Literature review:

Adamu A, Analyzed that impact of financial crisis on banking sectors of Pakistan and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2009 and applied EGARCH model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [1].

Alper CE, Yilmaz K, Observed that impact of financial crisis on listed companies of China and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1991 to 2001 and applied GARCH model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [2].

Alsubaie A, Najand M, Viewed that impact of financial crisis on multination sectors of India and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1992 to 2002 and applied VAR model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [3].

Enders W, Examined that impact of financial crisis on welfare sectors of Japan and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1993 to 2003 and applied VECM model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [4].

Engle RF ,Analyzed that impact of financial crisis on banking sectors of USA and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2009 and applied Unit Root Test, Cointegration and Granger Causality model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [5].

Enisan AA, Olufisayo ,Examined that impact of financial crisis on industries sectors of UK and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2013 and applied Johnson Co-integration test, Augmented Dickey Fuller (ADF) Unit Root Test, Phillip Perron (PP) tests and Autoregressive Conditional Heteroskedasticity Lagrange Multiplier (ARCH LM) model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [6].

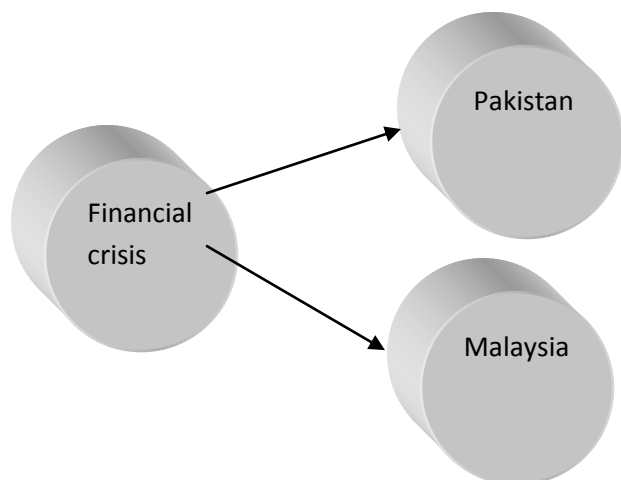
Gupta R, Basu, Discussed that impact of financial crisis on development sectors of Canada and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1999 to 2013 and applied Co-integration and Vector Error Correction Method (VECM) model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [7].

Hameed A, Ashraf H, Analyzed that impact of financial crisis on agriculture sectors and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2009 and applied practical multiple regressions model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [8].

Hussain F, Analyzed that impact of financial crisis on banking sectors of Israel and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2009 and applied GARCH model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [9].

qbal BA ,Analyzed that impact of financial crisis on banking sectors of Malaysia and observed that there is always negative impact of financial crisis on such types of sectors. For this purpose, they had taken data from 1998 to 2009 and applied EGARCH model and taken the results that financial crisis had worst impact on performance of country .They suggested that there should need adequate polices for better performance [10].

Theoretical framework:



Methodology:

For the purpose of finding volatility ARCH model are used .Eagle was first time introduced ARCH model then GARCH, GARCH M and TGARCH .Nelson was first time introduced Expontial GARCH model .The basic purpose of used asymmetry is to find out negative shocks .we used this test for checking of financial crisis shocks on stock exchange of

Pakistan and Malaysia. We used daily data of Karachi and Malaysia stock exchange from 1984 and applied different tests for proper results.

$$R_t = \ln P_t - \ln P_{t-1}$$

Table 1: Stock Returns Statistics of KSE and BSE

	KSE-Stock Return	MLSE-Stock Return
Mean	0.000688	0.000916
Median	0.001343	0.002081
Maximum	0.115287	0.154902
Minimum	-0.106202	-0.119365
Std. Dev.	0.016642	0.017745
Skewness	-0.123595	-0.298063
Kurtosis	7.729932	10.19258
Jarque-Bera	1767.562	4149.712
Prob.	0.000	0.000

Table 2: Results of EGARCH Models

Variables	KSE	MLSE
Mean equation		
α	0.0021* (0.0005)	0.0014* (0.0004)
β_1	0.8775* (0.0565)	0.1268* (0.0015)
β_2	-0.8265* (0.0673)	-
λ	-0.001* (0.0003)	-0.0025*** (0.0015)
Variance equation		
μ	-1.3952* (0.0962)	-1.0023* (0.0943)
δ	0.8702* (0.0102)	0.9093* (0.013)
θ	0.4012* (0.0262)	0.2633* (0.0243)
γ	-0.0842* (0.0192)	-0.1423* (0.0163)
φ	0.0361** (0.013)	0.1553* (0.0213)
Diagnostic tests		

F-Stat	2.392**	2.206**
SIC	-5.643	-5.613
Q-Stat (up to 36 lags)	All insignificant	All insignificant

Note: (i) *, **, *** denote for significant at 1%, 5%, 10% level.; (ii) Values in () are standard errors of respective coefficients.

Interpretation of tables:

Table no 1 showing that there exist comparable trends in both Karachi and Malaysia stock exchange and here mean values is zero and difference between both maximum and minimum values are also exist same. while the values of shewed are showing negative sign and values of Kurtosis are high and there are found Jarque –Bera are highly significant . Here , explanatory mean are important due to its explanatory variables. In this paper ,there are being used several diagnostic tests for finding impact of financial crisis on stock exchange of Malaysia and Pakistan. In addition, dummy variable has also used to check crisis impact. Table no 2 is showing results of EGARCH model of both stock exchange .In first and second parts the results of condition and Variance are presented whereas remaining part are showing diagnostic results.

Conclusion:

The basic objective of this paper is to find out the impact of global financial crisis on stock exchange of Pakistan and Malaysia, which were started at 2007. The crisis were started from USA and then spread from all over the world. Financial markets of developed countries were also faced these crisis and their financial markets were fall badly ,These crisis have always hampering impact on the economy of developing as well as under developing countries .we applied ERACH model and results are showing that stock markets of both countries are affected at very high level. Additionally, there is need of precautions to develop economy of these countries after financial crisis. Furthermore, our are also trying to explore that good and bad news are also impact on performance of economy .Probably, it is fact that stock market of Malaysia is more pronounced then Pakistani stock market.

Policy recommendation:

- 1) There are need of proper polices to control such types of events.
- 2) There is need to keep save of banking sectors from such types of financial crisis.
- 3) There should have made polices to save agriculture sectors as well.

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