Shock and Volatility Interaction Between The Sector Indexes of Istanbul Stock Exchange

Ekin TOKAT*

Abstract

This paper investigates the shock and volatility transmission between the Istanbul Stock Exchange (ISE) sector indexes. Using daily data of ISE National Industry, National Service, National Finance and National Technology indexes from July 30, 2000 to August 27, 2009 and employing a series of multivariate GARCH models, strong shock and volatility spillovers are detected among the sectors. Since these sector indexes are taken as indicator for various investment assets, it is important for financial investors to understand the volatility transmission mechanism across the sectors in order to make optimal portfolio allocation decisions. In this context, the results of this study provide a useful scope of application for the investors. The results are also indicative for policy makers and regulators.

Keywords: *Sector Indexes, Volatility Transmission, Multivariate GARCH*

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* *Yrd. Doç. Dr., TOBB Ekonomi ve Teknoloji Üniversitesi, İşletme Bölümü*