

AN INVESTIGATION OF COINTEGRATION AND CASUALTY RELATIONSHIPS BETWEEN THE PIIGS' STOCK MARKETS

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ABSTRACT

The aim of this paper is to investigate the relationship of price changes in the southern European E.U. member states through their stock markets and especially among the exchange markets of Portugal, Italy, Ireland, Greece and Spain, known also as the PIIGS countries. More specifically, it is examined whether co integration and causality relationships exists among the PIIGS' Stock Markets while by testing these relationships the existence of the Efficient Market Hypothesis (EMH) among these stock markets is also tested. In case of co integration relationships between these markets it is proved that possible advantages by internationalizing portfolio diversification are limited and further attention must be given for the selection of an internationalized optimal portfolio. It is also wealth mentioning that since 2012 Europe faces a serious economic crisis which is deeper in the member states of the South, so even further attention must be given to the construction of optimal portfolios.

KEY WORDS

Stock Markets, Cointegration, Granger Causality, PIIGS, EMH

JEL CLASSIFICATION

C22, F36, G10, G11

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