International Journal of Forecasting

Volume 14, Issue 2, 1 June 1998, Pages 215-225

The stock priceâ€“volume relationship in emerging stock markets: the case of Latin America

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https://doi.org/10.1016/S0169-2070(98)00028-4

Abstract

This paper examines the stock priceâ€“volume relation in a set of Latin American markets. Using monthly index data, we first document a positive relation between volume and both the magnitude of price change and price change itself, a finding reported by many for developed markets. However, using a vector autoregression (VAR) analysis to test for Granger causality, we fail to find strong evidence on stock price changes leading volume. This is contrary to evidence reported by studies on developed markets. In fact, we find that in four of the six markets we look at, volume seems to lead stock price changes. Thus, we conclude that this set of emerging markets with different institutions and information flows than the developed markets, do not present similar stock priceâ€“volume leadâ€“lag relation to the preponderance of studies employing U.S. data. The implication of these results is that differences in institutions and

information flows in this set of emerging markets are important enough to affect the valuation process of equity securities and warrant further analysis.

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Keywords

Capital markets; Causality; Emerging markets; Granger causality; Latin American equity markets; Priceâ€“volume relation; VAR; Vector autoregression

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