Risk, Return and Regulation in Chinese Stock Markets

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Abstract
This paper studies the dynamic behavior of risks and returns in Chinese stock markets. We characterize the time-series properties of stock-market return and volatility. We estimate an empirical model that captures the effect of local and global information variables on the conditional mean of stock-market excess returns and characterize the second order conditional moments using three error generation processes. We find that stock-market volatility is time-varying, mildly persistent, and is best described by a fat-tailed distribution such as the Stable distribution. We also find that government's market intervention policies have affected the stock-market volatility in China.

Key words: Volatility; Generalized autoregressive conditional heteroskedasticity; Market liberalization
JEL classification: G10; G14; O53

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