CO-MOVEMENT, JOINT INTERVENTION AND SPILLOVER EFFECT OF THE FOREX MARKET AMONG CHINA, JAPAN AND KOREA

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Abstract

This paper estimates the optimal ARMA-GARCH pattern of the real effective forex rate during the period of January, 1997 and September, 2010 among China, Japan and Korea, and tests the policy effectiveness of the forex market intervention among these three countries. We find that Japan is the most effective intervention country and that Korea is the least effective intervention country. We utilize BEEK-MGARCH method to test the co-movement of the real effective forex rates and the effectiveness of joint intervention policy of the forex market among China, Japan and Korea. We find that the countries with the most effective joint-intervention are China with Japan, and Japan with Korea.

Finally, we utilize the SVAR method to test the regressive phenomenon of the forex rates dynamics among these three countries. We find that the countries with the extent of the forex rate insulation are sequentially China, Japan and Korea.

Key Words: VOLATILITY of FOREX RATE, FOREX INTERVENTION, ARMA-GARCH, BEKK-MGARCH, SVAR

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