Abstract

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An Examination of Vector Auto Regression Model for Foreign Capital Inflows and an Empirical Study on Stock Market Indices of Egypt, Jordan and Turkey

Within a broad range of analyzing stock markets in developing countries, our study undertakes a comparative analysis of equity markets in three countries in the Middle East and North Africa region Egypt, Jordan and Turkey. This study is intended to investigate the interdependence of stock market indices in Egypt, Jordan and Turkey and whether the foreign capital inflows directed towards the MENA region cause any fluctuations in the securities prices. Also the study investigated the relationship. The investigated variables are U.S T-Bills, Brent Crude oil price, Consumer price index, Real GDP, Money supply, foreign reserves, Portfolio investment, and stock indices (EGX30, AGI, and BIST30) for period from 2002 till 2012. For this purpose, the study applied both the Pearson Correlation Model and Vector Auto-Regression Model to test for the interdependence of variables. The results indicate that foreign capital inflows measured by portfolio investment does not cause any changes in the stock indices understudy. Besides, the study also concluded that there are a number of macroeconomic variables that directly affects the stock indices returns. Furthermore, our study finds considerable relationships and interdependence among the variables understudy, but the results vary among the MENA region countries.