Money Market Interest Rate and Bank Return in the Southeast Asia Region: A Comparison Study

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Abstract

There is a large literature on the relationship between changes in interest rate and stock return on commercial banks, but the empirical evidence is conflicting and mixed. The study sets out to explain the apparent differences in the relationship in terms of regime switching model. In particular, the Markov switching model is used to allow some parameters to change according to economic shocks in three developing countries, namely Indonesia, Malaysia, and Thailand. This study further compares the Thai results with other two developing countries and the study period covers between September 1993 and March 2010. The analysis shows that the direction of response of Thai Index to changes in money market interest rate is different from those of other developing countries' Indices. There are some explanations, which are economic background and independence/governance of central banks, for the difference among these three developing countries.

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Table of Contents

Table of Tables

Table of Figures

List of Acronyms

AIC	Akaike (1974) information criterion
ADF	Augmented Dickey-Fuller (1979) test
ΔIB	Inter-bank rate in the first difference form
GF	Global factor
IB	Inter-bank rate
Index	Commercial bank stock index return
SIC	Schwarz (1978) information criteria
The MS model	Markov switching model