



Final Research Thesis

**"Volatility Spillover between Equity and
Exchange Rate Market; Evidence from Pakistan"**

As per course requirement of MBA (1.5 years)

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Abstract

The main objective of the research thesis was to scrutinize the volatility spillover phenomena in Pakistan's foreign exchange rate market and equity market in the context of KSE 100 Index. For this propose EGARCH (1, 1) Model is employed to investigate the long term association. The results depicted like chalk and cheese innovation phenomenon in pre-financial liberalization and post-financial liberalization era in which Pakistan adopted managed floating exchange rate system. The pre-financial liberalization period lacked in illustrating the association between the two while on the other hand post-financial liberalization showed bidirectional volatility spill over between the two markets, thus suggesting that there has been strengthening in the integration of these two financial markets in post-financial liberalization ear. In addition there has also been amplification in the volatility after switching two Managed floating regime. The influence of volatility of KSE 100 Index on the volatility of PKR/USD exchange rate tends to symmetrical in nature. However but the impact of innovations (volatility) on the Volatility of KSE 100 Index is asymmetric as the appreciation in US dollar against Pakistani Rupee influences more as compare to depreciation in US dollar against Pakistan Rupee by same amount.

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Dedication

I dedicate this report to my parents and friends in recognition of their worth and to my teachers who are the guiding force for me and it is their effort and hard work that showed me the path of success and prosperity which would be there for me for the rest of my life.

"Keep your dreams alive. Understand to achieve anything requires faith and belief in yourself, vision, hard work, determination, and dedication. Remember all things are possible for those who believe." - Merlin Olsen

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