THE STOCK MARKET AND ITS ECONOMIC INTERACTIONS:

AN EMPIRICAL STUDY OF EGYPT

A Thesis Submitted to the College of Arts and Sciences, Universiti Utara Malaysia, in Fulfillment of the Requirement for the Degree of Doctor of Philosophy (Economics)

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ABSTRAK

ABSTRACT

This thesis investigates the relationship between stock market development and economic growth in Egypt. Its aim is to determine the direction of causality between stock market development and economic growth. This study also includes the analysis of stock market behaviour, in particular the respond toward major international crisis namely the Luxor terrorist attack, Iraq war, and September 11. The analysis uses selected fundamental economic variables namely, inflation, interest rate, exchange rate, money supply, budget deficit, and gross domestic product and the data is analysed using quarterly data that covered the period between 1993:1 to 2008:4 which includes the above three international incidents. The existence of a long-run relationship between the stock market development and the economic growth is tested using Johansen's cointegration test, followed by the analysis of the short-run dynamic, which is based on the vector error correction model (VECM), while the determination of causality between variables is based on the Granger causality test. The result of the cointegration test shows the existence of the positive long-run relationship between the stock market development and economic growth in Egypt. It shows a positive relationship between economic growth and stock market development, while the causality is from economic growth to stock market development. Additionally, this thesis also examines the relationship between the stock market volatility and economic fundamentals using generalised autoregressive conditional heteroskedasticity (GARCH) model. The result shows the existence of relationship between stock market volatility with gross domestic product, government budget deficit, and interest rate. Finally, as for the reaction of the Egyptian stock market towards the world crisis namely Luxor terrorist attack, Iraq war and September 11, the results exhibit different reaction from the Egyptian stock market before and after the crisis.
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# TABLE OF CONTENTS

PERMISSION TO USE ................................................................. i

ABSTRAK .................................................................................. ii

ABSTRACT ............................................................................... iii

ACKNOWLEDGEMENTS ................................................................ iv

TABLE OF CONTENTS ................................................................ v

LIST OF TABLES ........................................................................ x

LIST OF FIGURES ....................................................................... xiii

## CHAPTER 1 INTRODUCTION

1.1 Introduction ........................................................................ 1

1.2 Background ........................................................................ 2

1.2.1 Allocation of Resources .................................................. 4

1.2.2 Monitoring Managers and Exerting Corporate Control ....... 5

1.2.3 Facilitating Trade .......................................................... 6

1.2.4 Risk Management .......................................................... 6

1.2.5 Mobilizing Savings ......................................................... 7

1.3 What Is Volatility? ............................................................... 11

1.3.1 Stylized Facts about Volatility in Financial Markets ........ 19

1.4 Problem Statement ............................................................ 19

1.4.1 Stock Market in Egypt: An Overview ............................... 19

1.4.2 Problem Description ....................................................... 25
1.5 Research Questions: ................................................................. 28
1.6 Significance of the Study: .......................................................... 28
1.7 Objectives of the Study: ............................................................. 30
1.8 Hypotheses of the Study: ............................................................ 30
1.9 Organization of Research ........................................................... 39

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction ................................................................................. 41
2.2 Conceptual Framework on Efficiency .......................................... 42
2.3 The Relationship between Stock Market and Economic Growth .... 50
2.4 The Relationship between Stock Markets and Macroeconomics Variables 66
2.5 The Effect of Unforeseen Events on Stock Returns ....................... 75
2.6 Conclusion ................................................................................ 77

CHAPTER 3 METHODOLOGY

3.1 Introduction ................................................................................. 78
3.2 Sources of Data and Definition of Variables .................................. 78
   3.2.1 Sources of data .................................................................... 79
3.2.2 Definition of variables ............................................................. 80
   Gross Domestic Product .............................................................. 86
   Stock Market Development ......................................................... 80
   Interest Rate .............................................................................. 83
   Inflation ..................................................................................... 84
Government Budget Deficit ................................................................. 84
Money supply ...................................................................................... 85
Exchange Rate .................................................................................... 86
3.3 Volatility and Economic Growth .................................................. 87
  3.3.1 Measuring Stock Market Volatility .......................................... 88
3.4 Relationship between Stock volatility and Macroeconomic Variables ....... 91
3.5 GARCH Model ............................................................................. 93
3.6 Cointegration Analysis ................................................................. 94
  3.6.1 Unit Root Test ....................................................................... 96
  3.6.2 Structural Shift and Unit Root Test ......................................... 99
  3.6.3 Vector Autoregressive Model (VAR) ...................................... 101
  3.6.4 Lag Length Selection ............................................................ 101
  3.6.5 Johansen Cointegration Approach ......................................... 113
  3.6.6 Vector Error Correction Model (VECM) ............................... 113
  3.6.7 Granger Causality Test .......................................................... 113
  3.6.8 Impulse Response Function and Variance Decomposition ........... 114
3.7 Wilcoxon Signed Rank Test ......................................................... 116
3.8 Conclusion .................................................................................. 118

CHAPTER 4 EMPIRICAL ANALYSIS AND RESULTS

4.1 Introduction .................................................................................. 119
4.2 Data .............................................................................................. 120
4.3 Multicollinearity .......................................................................... 121
4.4 Unit Root Tests ...................................................................................................................... 123
  4.4.1 Augmented Dickey Fuller and Phillip-Perron Tests .................................................. 123
  4.4.2 Structural Shift and Unit Root Test ........................................................................... 125
4.5 Vector Autoregressive Model ............................................................................................... 127
  4.5.1 Heteroscedasticity ......................................................................................................... 128
  4.5.2 The Breusch-Godfrey LM Test for Autocorrelation ................................................ 129
  4.5.3 Stability Condition ....................................................................................................... 129
4.6 Cointegration and Error Correction Model ......................................................................... 130
4.7 Vector Error Correction Model .......................................................................................... 133
4.8 Granger Causality Test Results .......................................................................................... 136
4.9 Innovation Accounting Analysis ......................................................................................... 137
  4.9.1 Impulse Response Function .......................................................................................... 137
  4.9.2 Variance Decomposition .............................................................................................. 139
4.10 Macroeconomic Volatility and Stock Market Volatility .................................................. 140
  4.10.1 GARCH-M .................................................................................................................. 142
4.11 Wilcoxon Signed Rank Test .............................................................................................. 144
4.12 Concluding Remarks ......................................................................................................... 147

CHAPTER FIVE CONCLUSION AND RECOMMENDATION
5.1 Introduction ......................................................................................................................... 148
5.2 Summary ............................................................................................................................ 149
5.3 Discussion .......................................................................................................................... 150
  5.3.1 Objective 1 .................................................................................................................... 152
**LIST OF TABLES**

Table 1.1  Financial Development and Real Per Capita Growth (1970-2000) .... 166  
Table 1.2  The Impact of Changes in Expected Benefits and Risk on Prices .... 167  
Table 1.3  Main Economics Indicators (2005/2006-2007/2008) ..................... 168  
Table 1.4  Main Market Indicators for the Period 1991 – June 2001 .............. 169  
Table 1.5  Compare between Emerging Stock Markets ................................... 170  
Table 3.1  Variables and Sources of Data .................................................. 171  
Table 4.1  Descriptive Statistics ............................................................... 172  
Table 4.2  Correlation Matrix ...................................................................... 173  
Table 4.3  Augmented Dickey-Fuller and Phillips-Perron Tests Results ........... 174  
Table 4.4  Unit root Test Allowing for Break ............................................... 175  
Table 4.5  Lag Order Selection Criteria ....................................................... 175  
Table 4.6  VAR Residual Heteroscedasticity Joint Test ................................... 176  
Table 4.7  VAR Residual Serial Correlation (LM) ......................................... 176  
Table 4.8a  Johansen-Juselius Cointegration Test Results (Model 2) ................. 177  
Table 4.8b  Johansen-Juselius Cointegration Test Results (Model 3) ................. 177  
Table 4.8c  Johansen-Juselius Cointegration Test Results (Model 4) ................. 178  
Table 4.9  The Pantula Principle Test Result ............................................... 178  
Table 4.10 Normalized Cointegration Coefficients ....................................... 179  
Table 4.11 Unit Root Test for Residuals ....................................................... 179  
Table 4.12 Estimation of Error Correction Model ........................................ 180  
Table 4.13 The Granger Causality Test Results ............................................ 181
Table 4.14 Variance Decomposition of GDP ......................................................... 182
Table 4.15 Stock Market Volatility and Macroeconomic Volatilities .................. 182
Table 4.16 GARCH-M Estimates with Macroeconomic Variables .................... 183
Table 4.17 Comparison of Returns Changes in the Post and Pre Crises ............ 184
Table 5.1: Gross Savings as a Percentage of GDP ........................................... 184
LIST OF FIGURES

Figure 1.1  Finance and Growth ......................................................... 185
Figure 1.2  Fitting of Trend Line in Growth Rate ................................. 186
Figure 1.3  Egyptian Stock Market Volatility (1998-2006) ..................... 186
Figure 1.4  Market Capitalization as a Percent of GDP .......................... 187
Figure 1.5  Trading Volume ................................................................ 187
Figure 1.6  Total Value Traded of Securities (1993-2008) ....................... 188
Figure 1.7  Percentage Changes in S&P/IFCI in 2006 ............................. 189
Figure 1.8  Percentage Changes in S&P/IFCI in 2008 ............................ 189
Figure 1.9  Delisting vs Capital Raised through IPO&SPO ..................... 190
Figure 2.1  Theoretical Framework .................................................... 191
Figure 2.2  Efficient Adjustment to New Information ............................ 192
Figure 2.3a  The Reaction when Good News Reaches ............................ 193
Figure 2.3b  The Reaction when Bad News Reaches .............................. 193
Figure 2.4  Predictability of Prices and Market Efficiency ...................... 194
Figure 3.1  The Variables Trend (Sample Period: Jan. 1993 : Dec. 2008) .... 195
Figure 4.1  The Graph of the AR Roots .............................................. 199
Figure 4.2  Plot of the Residuals from the Long Run Relationship ............ 199
Figure 4.3a  Plot of Cumulative Sum of Recursive Residuals ................. 200
Figure 4.3b  CUSUM of R square Stability Test .................................. 200
Figure 4.4  Impulse Response ............................................................ 201
Figure 4.5  Stock Market Volatility .................................................... 202
CHAPTER 1

INTRODUCTION

1.1 Introduction

Since the early 1990s, many developing countries have launched new markets or revitalized existing ones to enhance the development of capital markets and ease access to long-run capital. And it is well known that high volatility characterizes emerging stock markets. The objective of this study is to investigate the relationship between macroeconomic variables and the stock market volatility for the Egyptian stock market, and which macroeconomic variables are more important in causing major shifts in market volatility, since it is proven that long trend volatility should be associated with economic growth (Officer, 1973; and Schwert, 1989). This study also examines whether global, regional or local crises are causing market volatility or not.

The importance of the study on emerging equity markets is derived from at least three reasons: investments in emerging financial markets (EFMs) are viewed as the high-risk component of a global investment portfolio. As such, it is important for investors to understand the mix of benefits, and as pointed out by Chen, Roll, and Ross (1986) as well as McElroy and Burmeister (1988) and Hamao (1988), there is a relationship between macroeconomic variables and the stock prices. They also concluded that stock prices respond to macroeconomic news.
The contents of the thesis is for internal user only
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Chatfield, C. (2008), time series forecasting, Chapman &C Hall/CRC


221


