



Stock Market Crisis in Developed and Emerging Markets

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Abstract: Data from stock price indexes is examined empirically in this paper. Investigation of Developed and Emerging Markets on occasion of emergency as they are exposed to fast drops and ascends in share price, to realize the securities exchanges impacts and the country's resurgence after the end of the emergency, to view the data index before and after the crisis and study of different time-frame crisis. The characteristics of stock market crises in the developed and emerging markets differ significantly, according to my research. While the developed market crisis was less in terms of price loss and duration, this was not the case for emerging stock markets. Stock prices in emerging markets tend to fall quickly and steeply, but they take longer to recover, taking roughly three years on average. Prices in both developed and emerging markets decrease for at least three years after a crisis has ended. All of the crises we look at are contagious, meaning that most of the individual markets and regional market are in trouble at the same time. Finally, even during market crises, international stocks continue to provide diversification benefits to U.S. investors with lengthy investment horizons (six months or more).

Index Terms - Securities exchange, Resurgence, and Stock price.

I. INTRODUCTION

A stock market crisis arises when stock prices drop dramatically throughout a large segment of the market, resulting in a massive loss of paper wealth. Panic selling and underlying economic issues are the primary causes of market crashes. A stock market crash is a social phenomenon in which external economic events collide with crowd psychology, resulting in a positive feedback loop in which some market participants sell, prompting additional market participants to sell. Although there is no clear definition of a stock market crisis, it is often defined as a sudden double-digit percentage decrease in a stock index over a few days/years. A stock market crisis can have a substantial economic impact. Selling shares after a sharp decline in price and buying too many shares on margin before a market crash are two of the most common ways for investors to lose money. The market collapse of 1929, which sparked the Great Depression as a result of economic deterioration and panic selling, and Black Monday (1987), which was mostly driven by investor fear, are two well-known stock market disasters in the United States. The period from 1970 to 1997 has been the research period for the crises that happened in the emerging and developed stock markets. It involved three stock markets, namely, the developed stock market, the Asian stock markets, and the Latin American stock markets. International stock market crises have a short frame of study, but international currency crises and the 1987 stock market crash have a wide range of literature. By quantitatively studying stock index data from 1970 to 1997, this research contributes to crisis research. My methodology defines different stock market crises in different countries during our sample period. I look at stock price fluctuations before and after these events to see how prices rise before crises and how prices recover after crises. I analyse whether the link between stock market indexes varies during price decreases and document the extent of contagion during crises. The first segment reviews the literature on currency and stock market crises in the United States. The data and the creation of regional indexes are described in the second section. We then go on to identify stock market crises during the course of our sample period and analyse the behaviour of stock market indexes in the aftermath of the crises. Finally, we investigate the level of contagion and changes in market correlations during these crises.

II. REVIEW OF LITERATURE

A researcher's grasp of the existing literature and identification of potential areas for future research on a certain research topic is critical. Content analysis enables researchers to extract useful conclusions from previous research works, allowing them to conduct more effective investigations. According to Hart (1998), a study of literature allows a researcher to have a better understanding of his research issue and to improve his capacity to find new ways within the existing context. According to Castleberry and Nolen (2018), a researcher might change the evaluated ideas from existing work into a unique one by examining the same thoughts differently. The current study found that a few studies have been eager to examine the existing literature on stock market crises in emerging and developed markets, based on the necessity and benefits of content analysis. The literature on crises has primarily focused on currency crises and the 1987 stock market crash in the United States, and has looked into issues such as the causes of crises, price changes, international market linkages, contagion, and changes in the benefits of globalized diversification. I'm attempting to explain the crisis in terms of fundamental adjustments, such as downward revisions in global economic activity estimates or higher equilibrium necessary returns. As a result, the current study uses qualitative and quantitative content analysis to evaluate the relevant literature published during the post-crisis period on stock market crisis and to uncover the essential issues that have been studied concerning stock market crisis.

Neumark, Tinsley, and Tosini (1991):

They showed that correlations between stock market prices of different countries rise during periods of extreme volatility and fall to zero or near zero during more normal periods, implying that transaction costs may be to blame for this pattern of asymmetric correlations.

Lin and Ito (1994):

They discovered a considerable increase in the hourly return correlation between the S&P 500 index and the Nikkei 225 index from the Tokyo Stock Exchange (TSE) during the 1987 crisis period in a recent research.

Solnik (1974):

He demonstrated that international investments benefit US investors due to poor correlations between US and non-US markets. Bennett and Kelleher (1988) discover that during the Crash, stock price volatility was transmitted between markets at a higher rate than usual, and that periods of high daily volatility are associated with significant market correlations.

Aderhold, Cumming, and Harwood (1988):

They conclude that direct international linkages cannot and will not be accountable for the worldwide decline in equity share markets crisis in October 1987.

Black, Fama, and Roll (1989):

They try to explain the crisis by pointing to fundamental alterations in the economy, such as lower revisions in global economic activity expectations or higher equilibrium necessary returns.

Seyhun (1990):

Based on the behaviour of company insiders, he comes to the conclusion that investor overreaction had a key role in the Crash. While the Crash surprised insiders, they bought equities in record quantities shortly afterward, particularly those that had plummeted the greatest, and these stocks had substantial positive returns in 1988.

Norden and Schaller (1996):

They concluded that the degree of earlier market overvaluations explains subsequent U.S. stock market crashes during the period 1926-89 using regime-switching regressions.

III. OBJECTIVES

The goal of this research is to compile a list of relevant literary works on various elements of stock market crises from the 1970's to 1990's, as well as to quantitatively analyse the literature on the subject. And the research of developed and emerging markets during emergencies because they are exposed to rapid drops and rises in share prices, to understand the securities exchanges' impacts and the country's resurgence after the emergency, to view the data index before and after the crisis, and to study different time-frame crises.

IV. RESEARCH METHODOLOGY

It contains quantitative and qualitative analysis in the form of charts, graphs, and typical data from the 1970s to 1990s along with the information available and previous research papers.

V. RESEARCH FINDINGS

The research has been conducted from 1970's to 1990's on Eight developed countries/markets:

- a. Switzerland,
- b. Canada,
- c. France,
- d. Germany,
- e. Italy,
- f. Japan,
- g. United Kingdom, and
- h. United States of America

And Ten emerging countries/markets. From that Six Asian emerging countries/markets;

- a. Indonesia,
- b. South Korea,
- c. Malaysia
- d. The Philippines,
- e. Taiwan and
- f. Thailand

And Four Latin American emerging countries/markets;

- a. Argentina,
- b. Chile,
- c. Brazil and
- d. Mexico

VI. THE HISTORY OF STOCK MARKET CRISIS

a. The Developed Markets:

1. 1974-1973 Crisis, which affected all eight developed markets in our sample, was preceded by OPEC's quadrupling of oil prices in 1973 and the resulting increase in non-oil producing developed countries' foreign debt.

Recovery: Germany took only four months to recover, whereas Switzerland took 16 months. The recovery time for the other six countries ranged from 27 months in the United States to 52 months in Canada.

2. 1980-1981 Crisis, which included Canada, Japan, France, Italy, and the United Kingdom, was preceded by large jumps in gold prices in 1980 and OPEC's doubling of the oil price in 1979, causing balance of payment concerns for non-oil producing countries, particularly in emerging markets. Between October 1980 and May 1981, Canada, France, Italy, and the United Kingdom reached their peak.

Recovery: Japan just took two months to recover, whereas Canada and the United Kingdom took 19 months or less. However, it took France and Italy more than three years to recover.

3. 1987 Crisis, Except for Japan, all developed markets in our sample were affected by a price drop of one-third on the New York Stock Exchange during five trading days in October, sparked by significant trade imbalances and proposed anti-takeover legislation.

Recovery: The recuperation time ranged from 11 months in Switzerland to two years in the Italy.

b. The Asian Stock Market:

1. 1979-1980 Crisis, which involved South Korea and Thailand, was preceded by OPEC's doubling of oil prices in 1979, which caused balance of payment concerns for non-oil producing countries, particularly in emerging markets.

Recovery: Thailand's recovery took five years, whereas South Korea's took five years and one month.

2. 1990 Crisis, Indonesia, South Korea, the Philippines, Taiwan, and Thailand were also involved. Tight monetary conditions, rising interest rates, and decreasing economic growth in several countries preceded the crisis, as did the Gulf War in August 1990. For Asian countries, the crisis coincided with political unrest, natural disasters, and a worsening of the foreign trade balance in some cases.

Recovery: Thailand's stock market rebounded in 23 months and the Philippines' in 35 months, but the other three stock markets have yet to reach pre-crisis highs.

3. 1996 Crisis, Indonesia, Korea, Malaysia, the Philippines, and Thailand were also involved. Between 1990 and 1994, the Thailand's stock market climbed nearly thrice, reaching a high in October 1994. As a result of concerns about high interest rates and faulty bank loans, prices began to fall, and the market crashed in October 1996.

Recovery: Indonesia and Korea are still reeling from the aftermath of the 1989 crisis. The rest of the five markets took a long time to recover.

c. The Latin American Stock Market:

1. 1980-1981 Crisis, Argentina, Chile, and Mexico were involved in a dispute that began in 1979 when OPEC doubled the price of oil, causing balance of payment concerns for non-oil producing nations, particularly in emerging markets.

Recovery: Recovery took a lengthy time, ranging from four years in Chile to 75 months in Argentina.

2. 1986-1987 Crisis, Brazil and Mexico were both involved. The Brazilian stock market peaked in April 1986 as a result of increasing economic development following the economic stability, or Cruzado Plan, but fell in September of that year as a result of the government's failure to implement economic reforms.

Recovery: Mexico took 29 months to recover, whereas Brazil took 71 months.

3. 1994-1995 Crisis, Argentina, Brazil, and Mexico were all involved. The crisis was preceded by a nearly 85% increase in the Federal Funds rate in the United States throughout the course of 1994, as well as an unanticipated devaluation of the Mexican peso in December of that year. All three Latin American countries' stock markets peaked in 1994, with the Mexican and Argentinian stock markets peaking in January and September, respectively.

Recovery: Brazil took 22 months to recover, whereas Argentina took 23 months. Mexico's stock market has yet to regain its pre-crisis high.

VII. CONCLUSION

Over the course of our study, we found nine stock market crashes: three in developed markets where price index levels fell by more than 20% relative to their historical maximum, and six in emerging countries where index levels plummeted by more than 35% relative to their historical maximum. Crashes are frequently swift and severe, but prices recover in three years or less. Price losses in emerging markets are typically bigger and take longer to recover than in developed economies. The entire crash and rehabilitation procedure usually takes about 31 months. However, stock values tend to decrease again in the three years following the recovery, though not to the same extent as during the crash.

VIII. ACKNOWLEDGMENT

The preferred spelling of the word "acknowledgment" in America is without an "e" after the "g". Avoid the stilted expression, "One of us (R.B.G.) thanks..."

Instead, try "R.B.G. thanks". Put applicable sponsor acknowledgments here; DONOT place them on the first page of your paper or as a footnote.

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