

The information and volatility impact from introduction of SET50 index futures on underlying index

ABSTRACT

This paper investigates the impact of the introduction of SET50 index futures on its underlying spot. This study applies Generalized Autoregressive Conditional Heteroskedasticity (GARCH) framework to the prices of SET50 index futures and SET50 index spot. GARCH enables us to analyze the speed of information, the timely response to news and the persistence of volatility of the spot index before and after the futures introduction. The study finds that there is a significant improvement in both speed of and response to information in the post introduction period. So futures is found to benefit the spot index price in that it make the spot market more efficient. Finally, the paper finds that there is no significant change in market volatility in the post introduction period. This final result supports the fact that derivative trading does not destabilize the underlying spot market as evident in some foreign market.