The analysis financial stability based investor trading behavior

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The concept of contagion is one of important areas into every field of the theoretical and empirical studies. Forbes, Rigobon define contagion as a significant increase in linkage after a shock. Along with interdisciplinary combinations, the approach based information flow benefit from theoretical frameworks of statistical method such as complex network. In this paper we focus on the relationship between information flow among investors and financial volatility. One of earlier observations about financial instability was made by Mishkin (1991) when shocks to the financial system interfere with information flows so that the financial system can no longer do its job of channeling funds to those with productive investment opportunities. In our opinion, this definition is widespread from the standpoint of financial residence. Namely, price stability and a monetary policy play a role in financial stability. Although less conceptually persuasive, the more directly observable definition of financial stability is situation, which is without financial crisis and with smooth inflation rate. (e.g. Olsson, 2003). At the same time, Renihart and Rogoff (2009) noted the longer term macroeconomic implications of much higher public and external debt after financial crisis. Campbell, and Diebold (2005) explored the macro interface in the context of equity markets. Benchmark of financial stability would still have found for on account unapparent definition. Therefore, it is realistic that the study find factors contributing to systemic risk in crisis. A more recent strand of the literature has focused on the view of the individual firm. (e.g., Billio et al., 2012). Diebold, Yilmaz (2014) provided an overview of this literature, and explored connectedness among financial asset returns and volatilities through variance decomposition method (VDM). The investor activities in financial markets can impact the price formation and might influence the financial stability. We investigate whether the information flows among the investors with different investment strategies have influence on the market stability. We used the aggregated trading volume of both buyer and seller as an investor activity and adopt the variance decomposition method to quantify the information flows among the investor activity. We find that the degree of information flows have a positive relation with the market volatility, irrespective of used data sets.