MARKET RETURN, VOLATILITY AND TRADING VOLUME DYNAMICS AFTER ECONOMIC CRISIS

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ABSTRACT

This paper attempts to explore the relationships of return – trading volume and volatil-
ity – trading volume. Trading volume may represent a proxy of information, liquidity, and
momentum. The up and down of trading volume, therefore, contain certain information
that can be extracted by traders to make investment decision. Regressions of market return
on its lags, volume, and conditional variance and regressions of volatility on its lags,
volume, and conditional variance are employed. Traders may respond positive information
differently from negative information. To accommodate such behaviour, threshold autore-
gressive conditional heteroskedasticity or TARCH is employed. Using market data of
Indonesia Stock Exchange between economic crisis and before sub-prime mortgage crisis
(from year 2000 to 2007) indicate the existence of return – volume relationships as well as
volatility – return relationships albeit not very strong. There is also an indication that
traders respond positive information differently from negative information concerning
return movements but there is no indication concerning volatility movements.

Keywords: return, volatility, volume, TARCH

1 The data available in this paper may be used and
distributed to anyone needed.