DOES PAKISTANI INVESTOR EXHIBIT HERDING BEHAVIOR DURING FINANCIAL CRISIS?

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Abstract

This paper investigates the presence of the time-varying herding behavior and its presence under both normal and crisis situation at the Pakistan stock market. For this purpose, this study utilizes the return dispersion models based on the aggregate market returns. Unlike previous research, this study not only confirms the existence of herding but also observe time variation in this behavior. This time variation in herding behavior was examined by applying Kalman filter estimation to the return dispersion model. Furthermore, all three domestic crisis amplified herd intensity. However, of the two major international crisis, only global financial crisis significantly affect the behavior of Pakistani investor. Evidence suggests that tests for herding behavior should consider its dynamic nature. Crisis in domestic and global markets play a significant role in modeling the structure of the dynamic behavior of Pakistani investors.

Keywords: Stock Return Dispersion, Herding Behavior, Kalman Filter, Financial Crisis

JEL Classification: G400

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