

Diversification Benefits and EMU Equity Market Integration: An Empirical Study of iShares MSCI Index Funds of European Countries

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Abstract

International investment is popular for investors to diversify their risk exposure nowadays. On the other hand, due to the liberalization and revolution of global markets, the international markets have been increasingly integrated. The political, economic, and monetary union of Europe is of a long history, this paper investigates the extent of European Monetary Union (EMU) markets integration and its effects on the investors who seek to diversify their portfolios through investing in EMU markets. From the perspective of US investors, we use 10 iShares MSCI index funds covering regional EMU market and 9 of its member markets as the proxies for these equity markets and perform cointegration tests and Granger causality test on the daily closing prices of these index funds. Although evidence for bivariate cointegration is relatively weak, there is evidence in support of multivariate integration, which indicates limited diversification opportunities for investors in the long run.