

Abstract

This study examines whether contagion effects exist on Japan, China, Indonesian and Indian stock market, during the subprime mortgage crisis originated from the US. We use stock market returns in DJIA, NIKKEI, SSEC, IHSG and BSESN as representatives of US, Japan, China, Indonesian and Indian markets respectively.

To capture contagion effects we used VAR (Vector Autoregressive) model. We test with Granger Causality to know the relationship between two variable that affect each other in crisis period. Impuls response function used to analyze response one variable because of shock in another variable. Variance decomposition explain percentage caused shock 1σ at US that received in each stock market.

This empirical findings show that DJIA does not Granger Cause NIKKEI, SSEC, IHSG and BSESN. When shock occurred, response four stock market go down strickly and after few days start rising to equilibrium. Japan stock market receive biggest shock than another stock in the variance decomposition.

Key words: *Contagion Effect, Subprime Mortgage, Stock Market Return, VAR Model, Granger Causality, Impuls Response, Variance Decomposition.*