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Identifying Bubbles in Latin American Equity Markets: Phillips-Perron-based Tests and Linkages∗

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Abstract

The identification of periods of price exuberance in equity markets is of great interest to policy makers and financial investors. In this paper, we identify financial bubble periods within the major equity markets in Latin America. We use the recently developed recursive Augmented Dickey-Fuller methods and propose similar recursive procedures based on Phillips-Perron. We find that conditional on bubbles in the S&P 500, there are strong links between bubble episodes across equity markets in Latin America. In addition, the financial bubble periods in Latin America begin earlier and last longer than bubble periods in the United States during the 2008 financial crisis. Price bubbles were identified prior to the establishment of the Integrated Latin American Market (MILA).

Keywords: GSADF; Latin America; MILA; Price bubbles; Price exuberance

JEL classification: C22; C58; F30; G12

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