

# Contents

<b>1</b>	<b>Modern Finance and Comovement</b>	<b>1</b>
1.1	Modern Finance . . . . .	2
1.2	Equity Market Comovement . . . . .	4
1.3	Comovement and Financial Theory . . . . .	6
1.4	Organization of this Book . . . . .	7
1.5	What We Know about Comovement . . . . .	8
<b>2</b>	<b>Time-Varying Market Integration</b>	<b>11</b>
2.1	Data and Preliminary Analysis . . . . .	12
2.2	A Time-Varying Parameter Model . . . . .	13
2.2.1	The Basic Model . . . . .	13
2.2.2	Model Extensions . . . . .	16
2.2.3	Estimation and Testing . . . . .	17
2.3	Empirical Results . . . . .	18
2.3.1	The World Model . . . . .	18
2.3.2	Individual Country Models . . . . .	19
2.3.3	Results for the Extended Models . . . . .	26
2.4	Conclusion . . . . .	32
<b>3</b>	<b>Covariance and Predictability</b>	<b>35</b>
3.1	Conditional Hansen-Jagannathan Bounds . . . . .	38
3.2	Estimating Conditional Covariances . . . . .	42
3.3	Data and Preliminary Analysis . . . . .	44
3.4	Empirical Application of the HJ Bounds . . . . .	47
3.5	Performance Evaluation . . . . .	53
3.6	Conclusion . . . . .	55

<b>4</b>	<b>The Rationale of Correlation</b>	<b>57</b>
4.1	A First Look at the Data . . . . .	59
4.2	The Economic Model . . . . .	62
4.3	Market Segmentation and Market Integration . . . . .	67
4.4	Model Calibration . . . . .	68
4.5	Model Evaluation . . . . .	71
4.6	Conclusions . . . . .	75
<b>5</b>	<b>Last Words</b>	<b>77</b>