Towards a european stock-exchange: measuring the dynamic of the integration process

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Abstract

During the 90s, the european exchange industry has been involved in a process of integration that is still evolving. Euro, demutualization of the exchanges and technology innovations represent the main booster of the integration process.

Up to now different authors considered the consequences of an integrated market. Relevant studies come from Domowitz (2002), Lee (2002), Di Noia (2000) and Alemanni (2001 and 2003). The structure of the market, the trading activities and the governance of the exchanges were the most studied subjects. In many studies the authors investigate the causes of integration, evalutating the relevance of specific factors on the integration process.

If the main factors of the integration have been already identified, it's not been evaluated yet which was the most relevant one. The objective of this paper is to evaluate the relative contribution of the euro and specific integration projects (Euronext and Omx) to the european exchange industry integration.

The analysis of the currency effect (euro) versus the exchange effect (Euronext and Omx) will be based on a cluster analysis. Will be considered weekly frequency data of the main european stock market indexes, from the 1995 to 2006. For each year a cluster analysis will be repeated. Considering some relevant integrations events, will be considered the behaviour of the market indexes after and before each single event.

The underlying hypothesis is that the currency effect and the exchange effect are both able to change the cluster composition of national market performances.