

Have World, Country and Industry Risks Changed Over Time?

An Investigation of the Developed Stock Markets Volatility*

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Abstract

This paper extends the Campbell, Lettau, Malkiel, and Xu (2001) volatility decomposition method to study the time series behavior of equity volatility at the world, country and local industry levels. Over the period from 1974 to 2001 there is no noticeable long-term trend in any of the volatility measures. However, there is a sharp increase in local industry volatility relative to market and country in the late 1990's. Thus, correlations among local industries have declined, more assets are needed to achieve a given level of diversification, and the loss for not being well industrially diversified increases. Local industry volatility leads the other volatility measures.

JEL classification: G11, G12, G15, F30.

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