

Abstract:

This study attempts to examine volatility of the Nepal Stock Exchange (NEPSE). First, it compares the standard deviations and the higher –order moments (skewness and kurtosis) of daily and weekly NEPSE returns with those of several other markets as documented in the literature. Second, it traces out some historical events and changes in macroeconomic factors that coincide with increases in volatility. Finally, using GARCH (1,1) and TGARCH (1,1) this study determines whether NEPSE returns show volatility clustering, persistence and asymmetry and compares these phenomena with other markets. The findings show that the NEPSE is one of the least volatile markets among several emerging and developed markets. However, the NEPSE returns show negative skewness, which is not typical for emerging markets, and comparatively high excess kurtosis. The return series (both weekly and daily) exhibit volatility clustering but the persistence of volatility is comparatively low. Volatility has a negative relation with inflation and overall political environment affects volatility. International events do not influence volatility in Nepal.