

On the Measurement of Financial Market Integration

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Revista de la Real Academia de Ciencias Exactas, Físicas y Naturales
92, 4 (1998), 337-348.

Abstract

The paper presents some vector optimization problems to measure arbitrage and integration of financial markets. This new approach may be applied under static or dynamic asset pricing assumptions and leads to both, numerical and stochastic integration measures. Thus, the paper provides a new methodology in a very general setting, allowing many instruments in each market to test optimal arbitrage portfolios depending on the state of nature and the date. Markets with frictions are also analyzed, and some empirical results are presented.

Key words: vector optimization, arbitrage portfolio, dual problem, pricing rule