The internet provides individuals with the ability to find instantaneous information on nearly every corner of the earth. Increasing correlations of international stock markets suggests investors may use information from different parts of the world to assess the value of the assets they hold in their portfolios. This dissertation examines changes in international stock market behavior to identify the effects of international market integration across a time. More specifically, this dissertation studies the effects of integration on the ability of diversification to reduce risk and skewness of portfolios, how global-wide risks significantly impact country-level index returns, and the equity purchasing behavior of foreign investors.
The first paper in this dissertation measures the benefit to international portfolio diversification through time. The investigation observes the change in the standard deviation and skewness of increasingly more diversified portfolio returns from 1973 to 2010. Previous literature implies diversification reduces standard deviation, but diversification also reduces positive skewness in a portfolio. Increasing correlations of international stock markets suggests the reduction in standard deviation and positive skewness of a portfolio could be mitigated in recent time periods. This paper studies the changes of risk and positive skewness of international index portfolios over time. The results show that the reduction in standard deviation and skewness occurs at a much faster rate in more recent time periods. Robustness checks demonstrate the rate of standard deviation and skewness reduction varies across different investment strategies.

The second paper examines the impact of global-wide risk measures on country-level asset prices in an international capital asset pricing model (ICAPM). Integrated international markets imply assets returns with similar risks should not vary across countries, but segmented international markets suggest asset returns vary only through risks within a particular country. Previous literature documents that international financial markets became more correlated and integrated in the late 1990s. This investigation in this paper, therefore, studies the impact of global-wide risks on returns in an integrated international stock market environment. The results show insignificant global-market risk factors on returns before and after 2000, which implies world financial markets have not become integrated in the recent time period when looking across a sample of 37 stock markets. However, global-wide risk factors significantly impact index returns for a subset of advanced economies.

The third paper investigates the effect of international equity market integration on equity purchasing behavior of investors in different countries across different time periods. This study observes the relationship between net equity purchases by U.S. residents from foreign investors on stock market index returns in a segmented and integrated international stock market environment. The results of the examination indicate international equity integration did not affect equity purchasing differences across foreign and domestic investors.