

Causal Relationship between Trading Volume and Security Returns: A Case of the South Eastern European Region

Jasmina Okicic

University of Tuzla

Bosnia and Herzegovina

jasmina.okicic@untz.ba

Abstract: *The paper discusses the dynamic relationship between trading volume and security returns across the selected stock markets from the South Eastern European (SEE) region. The research on the issue of return-volume relationship stresses out a common belief that there is a positive relationship between returns and trading volume in the stock markets. Therefore, this paper seeks to ascertain the impact of information about trading volume on security returns in the SEE region. As a representative of this region, we use securities included in the South-Eastern Europe Traded Index (SETX) which is a tradable benchmark for the SEE region. To test whether trading volume precedes stock returns, or vice versa, we will use vector autoregressive model (VAR) and Granger causality test. By examining and analyzing this relationship we expect to shed some light on important issues such as market structure and information arrival, market efficiency, empirical distribution of asset prices and alternative types of asset behavior obtainable from the joint dynamics of price and trading volume.*

Keywords: *trading volume, security return, causality.*

