INTERDEPENDENCE BETWEEN EMERGING AND MAJOR MARKETS.

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In this paper, we investigate the price spillover effects among two developed markets, (the US and the UK), and two developing markets, (Irish and Portuguese), using a new testing method suggested by Lee (2002). We find that there are interrelationships between any two of the Irish, the UK and Portuguese markets and that the co-movements between the emerging markets and the US are statistically significant but weak. We also found that the US market is slightly influenced by the UK but not *vice versa*. In addition, we contrasted with the common method of the vector autoregressive (VAR) model to study the co-movement the returns series of these markets. Comparing the VAR results to those of the *previous* method showed that the forecast error variance is very sensitive to the order of variables for orthogonalization and to the stability of these series and this suggests that the new technique, based on wavelet analysis, is more reliable than the VAR method.

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