

# Dynamic Stock Market Linkages and Market Efficiency\*

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## Abstract

In this paper, we develop new methodologies to analyze time-varying structure of international linkages and evolving market efficiency in stock markets. We consider the time-varying VAR (TV-VAR) model, and apply it to obtain time-varying impulse responses over time between the U.S. and Japanese stock markets. Our empirical results provide a new perspective that is the stock market linkages and market efficiency in the semi-strong sense evolve over time. We conclude that their behaviors correspond well to historical events of the international financial system.

*JEL classification numbers:* C22; G14; G15

*Keywords:* Stock Market Linkages; Long-Run Multipliers; Time-Varying VAR Model; Market Efficiency

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\*We would like to thank Tatsuma Wada and Tomoyoshi Yabu for their helpful comments and suggestions. We would also like to thank the financial assistance provided by the Keio Gijuku Academic Development Funds. All data and programs used for this paper are available on request.

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