

Market Efficiency and Price Stabilization Policy in Interwar Osaka-Dojima Rice Exchange

Mikio Ito^a, Kiyotaka Maeda^b and Akihiko Noda^{c*}

^a Faculty of Economics, Keio University, 2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan

^b Faculty of Economics, Seinan Gakuin University, 6-2-92 Nishijin, Sawara-ku Fukuoka 814-8511, Japan

^c Faculty of Economics, Kyoto Sangyo University, Motoyama, Kamigamo, Kita-ku, Kyoto 603-8555, Japan

^d Keio Economic Observatory, Keio University, 2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan

Latest Version: <https://arxiv.org/pdf/1704.00985.pdf>

Abstract: We investigate how and to what extent the Japanese government intervened in the rice futures market in Osaka during the interwar period, from the late 1910s to 1939, using a time-varying AR model. We found the two facts by featuring the time-varying nature of the market efficiency. First, the intervention with discretionary power disrupted the rice market and reduced market efficiency in the exchange under the Rice Law in 1921 than the following second case. Second, the market remained efficient while traders pondered seasonally patterned interventions of the government based on the Rice Control Law established in 1933. When the government obtained the discretionary power to operate the policy regarding commodity market, the market efficiency often reduced. Conversely, even if the government implemented a large intervention, the market efficiency improved when the government's discretionary power was controlled by the law.

Keywords: Rice Futures Market; Market Efficiency; Time-Varying AR Model; Price Stabilization Policy.

JEL Classification Numbers: N25; G13; C22.

*Corresponding Author. E-mail: noda@cc.kyoto-su.ac.jp, Tel: +81-75-705-1510, Fax: +81-75-705-3227.