

Public Investment and Stock Price Returns: The Case of Japan

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This research examines the effects of public invest on stock price returns in Japan over the periods from 1983:Q1 to 2008:Q4. The empirical results show that while public investment forecasts the stock price returns and total factor productivity by Granger's causality test after 1991, the contribution of public investment on stock returns is small by variance decomposition using Factor-Augmented VAR model. Our empirical evidence on the post high-growth era in Japan suggest that although public capital forecasts stock price returns and TFP, public infrastructure investment is not expected to play a key role of revitalizing capital markets.

JEL classification: E44, G12, H54

Keywords: Public infrastructure capital in Japan; Stock price targeting;

Lag-augmented VAR; Factor Augmented VAR;

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