

Public Investment Multipliers: Evidence from Stock Returns of a Narrowly-Defined Industry in Japan

Nobuyuki Kanazawa*

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Abstract

This paper provides evidence of the macroeconomic impacts of public investment. We extract public investment news shocks from the excess return of narrowly-defined road pavement firms and use them as an instrument for future government spending. Using the Japanese data from 1980 and 2014, we find that the public investment multiplier is 1.64 a year after the shock and is as large as 5 after four years. Additionally, we report that public investment multipliers are declining over time; the estimated one-year multiplier is around 4 using the 1981-2001 window, while the multiplier is around 0.2 using the 1990-2010 window.

Keywords: Fiscal multiplier; Stock returns; Public Investment; Infrastructure Investment.

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*Department of Economics, Soka University (email: nkanazawa@soka.ac.jp).