

The Changing Role of Foreign Investors in Tokyo Stock Price Formation

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Abstract

Recent research suggests that foreign investors improve the informational efficiency of national stock markets. This paper examines what types of information foreign investors contribute to stock prices. We investigate the information content of foreign and domestic investors' trades on the Tokyo Stock Exchange over 39 years. The influence of foreign investors' trades on the efficient price has increased since around 2000. We find this is due to a substantial increase in the importance of global stock price and exchange rate information in stock price formation. Our results suggest that foreign investors have made more use of global information in trading Japanese equities as the influence of international financial factors on the domestic market has increased in recent decades.

Keywords: Equities, Foreign investors, Information content of trade, Investor behavior, Market microstructure

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