

Stock prices and exchange rate dynamics

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We study the long-run and short-run dynamics between stock prices and exchange rates and the channels through which exogenous shocks impact on these markets through the use of cointegration methodology and multivariate Granger causality tests. We apply the analysis to a group of Pacific Basin countries over the period 1980 to 1998. The evidence suggests that stock and foreign exchange markets are positively related and that the US stock market acts as a conduit for these links. Furthermore, these links are not found to be determined by foreign exchange restrictions. Finally, through the application of recursive estimation the evidence shows that the financial crisis had a temporary effect on the long-run comovement of these markets.
