

INTERRELATIONSHIPS AMONG STOCK PRICES OF TAIWAN AND CHINA AND NTD/RMB
EXCHANGE RATES: ARDL AND LEVEL VAR MODELS

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Abstract

This paper adopts autoregressive distributed lag model and level vector autoregressive model to examine the long-run and short-run causal relationships among the stock prices of Taiwan, the stock prices of China and the NTD/RMB exchange rates during the period of January 2002–October 2011. The results indicate that there is no long-run level equilibrium relationship among the stock prices of Taiwan and China and the NTD/RMB exchange rates. The causality results show that there is a neutral relationship between exchange rates and China stock prices, and a neutral relationship between China stock prices and Taiwan stock prices. Finally, there is unidirectional causality running from Taiwan stock prices to NTD/RMB exchange rates at 5% significance level. The result showed that there is strong evidence in favor of the portfolio hypothesis.

Keyword : Exchange rates, Stock prices, Autoregressive distributed lag model, Level