

Measuring the Time-Varying Market Efficiency in the Prewar Japanese Stock Market, 1924–1943

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The latest version of this paper is available at
<https://arxiv.org/pdf/1911.04059.pdf>

Abstract: This study explores the time-varying structure of market efficiency for the prewar Japanese stock market using a new market capitalization-weighted stock price index based on the adaptive market hypothesis (AMH). First, we find that the degree of market efficiency in the prewar Japanese stock market varies over time and with major historical events. Second, the AMH is supported in this market. Third, this study concludes that market efficiency was maintained throughout the period, whereas previous studies did not come to the same conclusion due to differences in the calculation methods of stock indices. Finally, as government intervention in the market intensified throughout the 1930s, the market efficiency declined, as well as rapidly taking into account the war risk premium, especially from the time when the Pacific War became inevitable.

Keywords: Efficient Market Hypothesis; Adaptive Market Hypothesis; GLS-Based Time-Varying Model Approach; Price Control Policy; War Risk Premium.

JEL Classification Numbers: C22; G12; G14; N20.

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