

Public investment and Stock Return: The Case of Japan

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Abstract

This research examines the effects of public investment on stock returns in Japan over the periods from 1980 to 2012. By doing this, we calculate the impulse response function by local projection method using the sectoral panel data. The empirical results show that public investment has a positive impact on stock returns. Especially, we confirm a strong effect on a group of the primary and secondary industries, as well as the periods after the 2000s, though the quantitative effects are not so substantial. Our empirical evidence on the post high-growth era in Japan suggests that public investment has been partly useful to support the revitalization of stock market.