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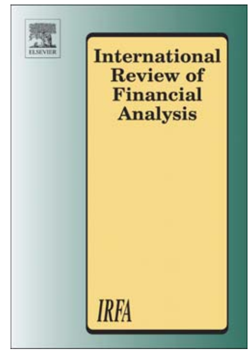


The relationship between pension funds and the stock market: Does the aging population of Europe affect it?

Mercedes Alda

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# The relationship between pension funds and the stock market: does the aging population of Europe affect it?

**Author:**

Mercedes Alda[a]

[a] University of Zaragoza, Address: Economics and Business Faculty, C/ Gran Vía, 2, C.P. 50005, Zaragoza (Spain). Email: malda@unizar.es

**Abstract**

In recent decades, pension fund investment has increased rapidly because of population aging and growing doubts about the viability of western public pension systems. As a result, pension funds have become dominant in stock markets. This paper examines the influence of the pension fund assets invested in equities on stock market development and the market efficiency of 13 European countries, from 1999 to 2014. Our results vary by country, by pension model and among the one-model countries. Nevertheless, we find a generalized direct pension fund influence on stock market development, and pension funds contribute both market expansions and contractions. We also find greater pension fund influence on stock market development when the population increases, revealing a concern about saving for retirement. Finally, our efficiency analysis reveals that the influence of pension funds varies over time and across markets, due to arbitrage opportunities that provoke adaptive managerial strategies.

**Keywords:** capitalization, development, efficiency, pension funds, stock market

**JEL codes:** G10, G14, G23

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