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Do financial structures affect exchange rate and stock price interaction? Evidence from emerging markets

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Abstract We investigated the relationship between stock prices and exchange rates in eleven emerging markets over the period of 1988 to 2014 using cointegration methodology and multivariate granger causality tests. We find that in emerging markets, the inner-financial structure, which reflects the proportion of direct financing and indirect financing, plays an important role in the link between exchange rates and stock prices. For ten out of the eleven emerging markets studied, the financial structure had a significant impact, either through the flow channel or stock channel. The effects of financial-economic structure (FIR) were much smaller.

Keywords Financial structure ; Exchange rate ; Stock price ; Emerging markets ; Multivariate granger causality tests

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