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# Dynamic Linkages Between the New York and Tokyo Stock Markets:

A Vector Error Correction Analysis

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## Abstract

This study examines dynamic linkages between the New York and Tokyo stock markets using daily index data. In contrast to previous analyses, both short-term and long-term intermarket adjustments are modeled and estimated simultaneously based on a vector error correction model of cointegration. Significant evidence for both short- and long-term feedback relationships between the two stock markets is found. Further subsample analysis reveals that the presence of two-way effects between the two markets is a rather recent phenomenon taking place in the late-1980s, notably in the post-1987 crash period. The results suggest that the New York and Tokyo markets are increasingly interdependent over time, and that the U.S. market is not always the leading stock market.



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