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**The relationship between the monetary market and the stock
market in China**

—Evidence from Shibor and CSI300 stock Index

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Abstract

Discussions about the relationship between monetary market and stock market have emerged for a long time. As an important tool of monetary policy, interest rates are always taken into account when handling variables such as investment, unemployment and inflation. In China, the government has taken steps in recent years toward a more liberal economy, and there is no doubt that the liberalization of interest rates are included in the financial reform. This liberalizing of interest rates began with the creation of the Shanghai Interbank Offered Rate, also known as Shibor. At the same time, due to the fact that the stock market in China has been involved in the rapid development of China's economy, it has become popular to identify the interactive relationship between Shibor and the stock market.

Based on the data of Shibor and the China Securities Index (CSI 300 stock Index), which attempts to reflect the price fluctuation of all the A-share markets in China, this paper aims to investigate the interactive relationship between the monetary market and the stock market. About the stock market, I choose CSI 300 index, IPO blocked funds and the daily trading volume of the stock market as variables. The data period covers all the trading days in 2014, and I run the data using the Vector Autoregressive Model (VAR) model and analyze the impulse response function and variance decompositions, thereby further analyze the interaction between Shibor and the stock market.

The main conclusion from the study shows that there is no obvious casual relation between various variables of the monetary market and the stock market. The impulse

response and variance decompositions show that the interactive relationship between the monetary market and the stock market is weak in China.

Keywords: Shibor, interest rate, monetary market, stock market, CSI 300 Index, IPO blocked funds, daily trading volume.



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