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Investigating the Time and Frequency Domain Causality Approaches for the Economic and Political Stabilities: The Case of China and Japan

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ABSTRACT

The aim of this study is to investigate the causal relationship between economic stability and political stability for Japanese and Chinese markets. Granger causality, Toda Yamamoto causality, nonlinear DG causality and Spectral Granger causality test approaches have been implemented to test empirically whether there are any causalities existing among GDP per capita, GDP growth, inflation and the current account balance by using political risk index and economic risk index, respectively. The empirical results reveal that there is feedback causality existing between political and economic stability in both countries. The estimated results are consistent with findings from Spectral causality at different frequencies.

KEYWORDS Economic and Political Stability; Toda Yamamoto; Spectral; Nonlinear DG Causality; China and Japan

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