Research on the Interaction between Stock Market and Real Economy

Pengfei Wen
Economic, (LAS), University of Illinois at Urbana of Champaign, 61801

Keywords: Stock market, real economy, relevance

Abstract: In recent years, the development of China's real economy has been weak, which has caused a serious impact on China's economic development. The impact of the virtual economy on the real economy is more obvious. As a manifestation of the virtual economy, the stock market also presents very large uncertainties. The stock market and the real economy tend to have a certain divergence. This paper analyzes this relationship and proposes suggestions.

1. Proposal of the problem

After decades of development in the market economy, China has gradually formed a complete financial framework. Correspondingly, after more than 30 years of development, the stock market has gradually become an important part of financing and investment in China's capital market. In recent years, China's stock market and the entire macro-economy have clearly deviated from the trend. The entry of funds into the stock market is to support the understanding of the real economy, which has affected the healthy development of the real economy to some extent. Studying the relationship between the stock market and the real economy is the study of the relationship between the real economy and the virtual economy. The stock market and the real economy often have a relationship of interaction. The trend of the stock market represents the expected trend of the real economy, while the real economy The trend in turn affects the trend of the stock market.

2. Status of stock market and real economy development

The impact of the stock market on the real economy is mainly achieved by the following effects: First, the wealth effect. Residents’ spending depends not only on current income, but also on their wealth. The change in stock price will change the wealth of the residential sector, which will affect the current consumption of the residents and the future, and thus affect the total demand and total output. The second is the asymmetric information effect. Due to the widespread information asymmetry in the credit market, it is possible to stimulate the real economy through the stock market, which is achieved through the impact of stock prices on the company's balance sheet.

2.1 The real economy

The real economy refers to the total value of goods produced by a country. It includes economic activities such as the production and circulation of material and spiritual products and services. It includes the production and service sectors of agriculture, industry, transportation and communications, business services, construction, and cultural industries, as well as the production and service sectors of spiritual products such as education, culture, knowledge, information, art, and sports. The real economy has always been the foundation for the survival and development of human society. At present, China's economic growth still has downward pressure. The task of stabilizing growth, restructuring, promoting reform, benefiting people's livelihood and preventing risks is still very arduous. The global financial market has also experienced large fluctuations in the near future, and it is necessary to use monetary policy tools more flexibly.

2.2 Stock market

China's stock market has gone through nearly 30 years of development and has achieved remarkable results. The scale of the stock market continues to expand, the importance of the stock
market in economic development is increasingly prominent, and people's attention to the stock market is also increasing. In some countries with developed financial markets, the healthy operation of the stock market has a certain supporting effect on the development of the real economy. China's stock market was established late, and its development is still immature. In the past 20 years, the stock price has experienced many sharp rises and falls. From the perspective of international experience and historical events, the stock market will promote the development of a country's economy, but the sharp, abnormal or irrational stock price crash will also have an impact on economic stability.

China has not yet established a scientific and rational selection mechanism for listed companies and a sound stock price formation mechanism. It mainly implements the government approval system, that is, the government controls the listing choices of enterprises, but is not controlled by the market, which leads the government to become the actual monopolist of listed financing. State-owned enterprises have more listing opportunities than small and medium-sized enterprises. They can easily solve financing problems through listing, while SMEs have more urgent needs for funds, but they have basically no chance of listing.

<table>
<thead>
<tr>
<th>Year</th>
<th>The total market capitalization</th>
<th>Circulation market value</th>
<th>Stock transaction</th>
<th>Stock transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>214758.1</td>
<td>164921.3</td>
<td>33956.57</td>
<td>6780.47</td>
</tr>
<tr>
<td>2012</td>
<td>230357.62</td>
<td>181658.26</td>
<td>32860.54</td>
<td>314667.41</td>
</tr>
<tr>
<td>2013</td>
<td>239077.19</td>
<td>199579.54</td>
<td>48372.68</td>
<td>468729</td>
</tr>
<tr>
<td>2014</td>
<td>372546.96</td>
<td>325624.31</td>
<td>73754.61</td>
<td>743912.98</td>
</tr>
<tr>
<td>2015</td>
<td>531304.2</td>
<td>417925.4</td>
<td>171039.46</td>
<td>2550538.29</td>
</tr>
<tr>
<td>2016</td>
<td>678365.1</td>
<td>615326.23</td>
<td>643265.2</td>
<td>5493561.2</td>
</tr>
<tr>
<td>2017</td>
<td>8593621</td>
<td>798534.1</td>
<td>753698.8</td>
<td>863862.2</td>
</tr>
</tbody>
</table>

3. The relationship between the stock market and the real economy

In theory, the relationship between stock market performance and the real economy mainly has the following views. The first view is that the stock market is a barometer of the real economy. The second view is that macroeconomic analysis can predict the trend of the stock market. From the study of foreign stock price changes and the relationship between the real economy, the rise in stock prices can affect the real economy through spillover effects, and the changes in the real economy will affect the stock price of the company, so there is a dynamic relationship between the two.

![Fig.1 Urban residents' disposable income, consumption expenditure and share price growth rate](image-url)

It can be seen from the figure that there is a very obvious synergy between the consumption
expenditure of urban residents and the growth rate of disposable income, and the trend of the two is basically the same. Observing the change trend of urban residents' consumption expenditure growth rate and stock price change rate, the growth rate of consumption expenditure is much smaller, but the trajectory of the two is similar, and in most cases, the trend of stock price change rate changes. Leading the way in the growth rate of consumer spending. The above analysis shows that China's urban residents' disposable income changes and stock price changes have a certain correlation with household consumption expenditure.

It can be seen from the figure that there is a clear synergy between the fixed asset investment and the rate of change of the benchmark interest rate of the loan. The trend of the two is similar, and in most cases, the change in interest rate change rate is ahead of the investment growth rate. The change. Observing the trajectory of investment growth rate and stock price change rate, the correlation between the two is not so obvious.

3.1 Deviation relationship and reasons

In theory, stock prices should be an indicator of macroeconomics, but current stock price movements are more inconsistent with the real economy. Including the following aspects. The first is monetary policy. The generation of money has led to the separation of real logistics and monetary flows in economic activities. Loose monetary policy and a large amount of circulating currency have made this separation more significant, which often becomes the reason why the virtual economy deviates from the real economy. Second, when the enterprise's internal financing cannot meet the funding needs, it will give priority to debt financing. The rise in the financing ratio has led to the expansion of stock market credits. As a result, the rise in stock prices will deviate more from the real economy. Third, the modern enterprise system has a strong constraint and supervision function for the enterprise manager. When the business is not good, the company's stock price may fall. The stock price cannot reflect the changes in the real operating conditions, which will undoubtedly lead to the deviation of the stock market from the real economy.
It is not uncommon for the Chinese stock market to deviate from the real economy. The divergence between the virtual economy and the real economy is a normal state, and the complete synchronous change is only an accidental phenomenon. In recent years, the main reason for the continued deviation between China's stock market and the real economy is that the return on stock assets is less than the return on physical assets, but the direct cause behind the difference in yields is the extreme asymmetry of China's stock market and the structure of the real economy.

3.2 Problems

Compared with foreign mature markets with better organizational structure and more complete system, China's stock market has inherent institutional defects. First, China's new share issuance system is unreasonable. At present, the issuance system of China's stocks is an approval system. The implementation of the approval system has prevented the listing of some potential enterprises to a certain extent, which is not conducive to the rational and effective allocation of market resources. Second, violations in the information disclosure of listed companies in China often occur. In China, there are occasions when listed companies have false content in the disclosed public information. A few companies even use some insider information to conduct insider trading, so as to seek personal gain. Third, in the irrational environment of high risk and high speculation in China's stock market, many companies' investment and financing behaviors and investors' investment behaviors are subject to certain distortions. Fourth, China's stock market has developed under the background of the coexistence of China's planned economic system and market economic system. There must be inherent problems such as institutional defects.

4. Countermeasures

4.1 Strengthen financial innovation.

We should strengthen the development of financial instruments such as stocks, stock index futures, hedging, and hedging, and build multi-level financial markets. Encourage professional and efficient organizations to participate in the stock market, strictly entering the market and participating in the threshold. Breaking the imbalance of price distortions and high profits, promoting the opening up of the stock market and promoting the marketization of the stock market.
4.2 Standardize the development of the stock issuance market.

Accelerate the implementation of the IPO registration system, and implement a market-based stock public offering mechanism in a timely, orderly and orderly manner. Promote the rule of law in the stock trading market, strengthen the supervision and management of stock trading and legal system construction, encourage value investment, severely punish insider trading and market manipulation, and make the stock market more transparent. Policy guidance is based on the ratio of the stock market to the proportion of the real economy and the ratio of the stock market to the size of the real economy.

4.3 Cultivate the investor's investment philosophy and increase the stock market wealth effect.

Expand the scale of corporate stock market financing, improve the governance mechanism of listed companies, and promote the stable development of the real economy. Institutional investors need to treat investment with a more prudent attitude, and the state must provide good external conditions for the improvement and development of professional investment institutions.

4.4 Strengthen the connection between technological innovation and capital markets.

Establish a sound capital market, give full play to the important role of the capital market, fully consider the basic characteristics of enterprises of different natures in the construction of a multi-level market system, and give full play to the important role of knowledge and technology.

References


