

Chapter 5

Conclusion

5.1 Conclusions

This paper investigates the dependence measures between People's Republic of China's real estate sector stock and Shenzhen Index from 2006 to 2012 use Linear, Nonlinear and Empirical Copula Approach. The empirical investigation shows those followings results:

Firstly, the results of this study show that the Autoregressive-linear model (AR-linear Model) was suggested as appropriate model for forecasting the real estate sector stock and Shenzhen Index over the period of 2006 to 2012, respectively. Because the trend of each index is similar, and linear model can capture the characteristics of these stock indexes. But above all, the real estate sector stock is one of the important components of Shenzhen index. In my research period 2006 to 2012, the Chinese stock market faced depression in 2007, and financial crisis broken up in 2008. Therefore the Linear approach should be used when one country's economy affected by global financial crisis.

Secondly, based on the Empirical Copula approach the dependence measures between returns in percentage of People's Republic of China's real estate sector stock and Shenzhen Index is very strong. Because on the one hand Chinese government rely on investment-led economic growth, real estate market is one of the pillar industries of Chinese economic growth, it playing as a key driving role. What's more, the real estate sector stock is one of the important components of Shenzhen Index. On the other hand, from the view of the spillover effect between stock markets, it is means an unpredictable fluctuation in one stock market will affect another stock market. The financial markets in China didn't fully open, it influenced by domestic markets serious than by international stock market. Therefore the writer thinks the Chinese government should open part of the financial markets and strength cooperation between international financial markets.

5.2 Recommendation

5.2.1 Policy suggestions

From the results the writer gets from this study. Chinese economy has to face the problems: first, due to the financial crisis broken up and the overseas hot money inflow to China's real estate market and stock market. These elements led these two markets too hot. Chinese government in order to cool them therefore it

take a series of workable Macro Control Policies for these two markets from 2006 to 2011. But Chinese government rely on real estate investment drive economic growth, excessive control real estate market will go against the development of China's economy. Therefore we should know how to balance the relationship between China's economic development and real estate market growth. Second. From developed countries experience we know investment-led economic is not sustainable development. Real estate invested in infrastructure will lead to overcapacity, Credit expansion, asset bubbles and the gap between rich and poor become more and more serious. Therefore we should know how to modify our economic growth model in the middle-long run. Based on these two questions this study will provide some recommendation of policies for Peoples Republic of China.

According to my results mentioned above, in order to prevent the real estate market recession after financial crisis. In the long run Chinese government should confine the excessive depreciation of real estate prices and provide the sustainable and healthy development of the real estate market and stock market.

Some policies for the government can be employed. On the one hand, Chinese government can implement the monetary policy to adjust the real estate market and stock market. When Chinese economic face depression, it can implement easy monetary policy, it means our government should decrease suitable interest rates and increase the money supply. If Chinese economic increase rapidly that it can

implement tight monetary policy, it means our government should increase suitable interest rates and decrease the money supply, while lead to real estate price and stock index rise at reasonable level. These methods will promote the healthy development of the real estate market and financial market. Thus, we can know that the interest rate has become a useful instrument for the government to adjust the real estate market and stock market demand.

On the other hand, our government can use the fiscal policy to adjust the real estate market and stock market. When Chinese economic face depression it can implement easy fiscal policy, it means our government should cut suitable individual housing property tax, increase the infrastructure construction and expanding the money supply of potential stock market. If Chinese economic increase rapidly that it can implement tight fiscal policy, it means our government should increase suitable individual housing property tax, decrease the infrastructure construction, while lead to real estate price and stock index rise at reasonable level. These methods will promote the healthy development of the real estate market and financial market.

Furthermore, for China's economy growth in long run. First, we should modify our national distribution system to improve people's live. Second, Chinese government should transform economic growth mode, let consumer-driven economic growth replace investment-led model, and then stimulate domestic demand and

expand consumption. Last, we should adopt high technology to promote our productivity. These methods will as the potential promise of our economic healthy and sustainable development and related markets growth.

5.2.2 Future researches

Some further research can be conducted. On one hand, in order to make more accurate understanding the operation of financial market, we can increase the variables, such as interest rate and other sector stock. On the other hand, according to the spillover effect help investors establish an effective portfolio of assets to make a reasonable choice, and we also can analysis the portfolio between financial assets, between capital goods and between financial assets and capital goods.