

Tests for the Efficiency Hypothesis in the Japan Foreign Exchange Market

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Abstract

Recent studies have rejected the foreign exchange rate efficiency hypothesis, through a failure of a forward rate version of the unbiasedness hypothesis. This paper examines the market efficiency hypothesis in the Tokyo foreign exchange market, using monthly spot and forward prices from 1973 through to 1995. In sections 2 and 3, I test long-run efficiency by cointegration methods. In section 4, short-run efficiency is found to be rejected by means of vector error correction and exogeneity tests.