

# The Effect of Money Supply on the Volatility of Korean Stock Market

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**Abstract.** In this study we examine the relationships between change in Korean and U.S. money supply and stock returns with GARCH, GJR-GARCH and EGARCH models. The main results of our empirical analysis are summarized as follows. First, we found that there is no relationship between change in Korean and U.S. money supply and volatility in Korean stock returns, suggesting that change in money supply does not influence the flow of information to the market. Second, the asymmetric effect of bad news on volatility is higher when contemporaneous change in Korean and U.S. money supply is included. Change in the Korean and U.S. money supply directly does not affect the Korean stock returns. Finally, the results based on a variance model indicate that the money supply(Korea, U.S.) did not have any effect. The formal studies support that there is no significant forecasting power of past changes in money supply. And, it is not affect asymmetric effects on returns. While stock returns should not be guided by the direct effect on the change in money supply, influence of money supply should not be disregarded due to the impact of stock returns on macroeconomic activity.