

Personal Income and Stock Market

Abstract

This paper examines fundamental relationships between personal income and the stock market. Since personal income is a main source of investment for market investors, we explore its time-series characteristics with stock market prices and returns. In addition, we investigate how personal income is related to investor sentiment. We find that while personal income is cointegrated with investor sentiment, it is not cointegrated with stock market prices. With the Granger causality test, we also find that there exists a unidirectional causality from stock returns to personal income and a bidirectional causality between personal income and investor sentiment.