

TECHNICAL SESSION-2: PUBLIC POLICY AND MARKET EFFICIENCY

Chair: Prof. Dr. A. G. Awan, Dean of Business, Institute of Southern Punjab, Multan

Paper Title: Evolving Market Efficiency Test: Evidence from an Emerging Stock Market

Author and Presenter: Abid Hameed

Abstract: In this paper an attempt has been made to revisit the weak-form efficiency of Pakistan's stock market using the evolving market efficiency methodology. This paper employs a model comprising of time varying autoregressive (AR) stock returns with errors modeled as a GARCH process to measure the evolving efficiency or predictability (autocorrelations) of stock returns over time using the Kalman filter framework. The results show evidence of time-varying predictability over the sample period. However, evidence in regards to convergence towards weak-form efficiency cannot be confirmed as the KSE experienced alternating periods of efficiency and inefficiency over most of the sample range and during the latter path of the sample the stock market moves to an inefficient state with predictability on a rising trend. The results from this study will be useful for the regulator to assess the efficacy of meeting one of their core objectives of ensuring efficient markets. For the investor the results imply that short-term gains can be made following an active investment strategy after taking into account transaction costs.