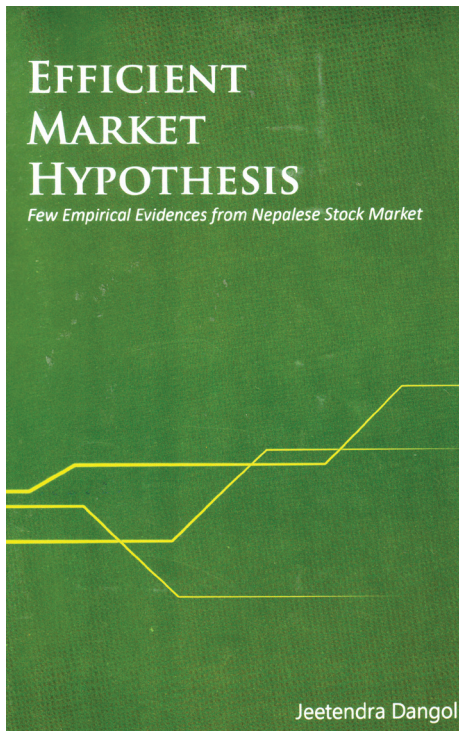


BOOK REVIEW

Probe into Stock-market Efficiency in Nepal

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Efficient Market Hypothesis: *Few Empirical Evidences from Nepalese Stock Market*; By Jeetendra Dangol; Published By: Quest Publication, Kirtipur; First Edition 2010; ISBN: 9789937825979; Pages: 140+16; Price: NRs. 125/-.

PRICE movements in the stock market are among a few phenomena that have gone across the boundaries of academic disciplines and have cumulative research evidences spanning almost a century now. The Efficient Market Hypothesis (EMH), a dominant model in financial market research so far, has evolved through different stages since Fama provided its simplest explanation in 1970. The EMH paradigm has now been placed under critical re-examination (Russel and Torbey, 2009).

Amid such developments has a book focusing the EMH come to the market. The book exclusively deals with the stock market behaviour and market efficiency studies. It is

worth emphasising that studying market behaviour and EMH is essential for making investment-portfolio decisions that, in turn, are the key to wealth maximisation.

As regards the EMH development, Fama (1970) first proposed classifying the market efficiency into three levels on the basis of the information: (1) *weak form efficiency* where stock price fully reflects historical information of past prices and returns; (2) *semi-strong form efficiency* where stock prices fully reflect all information known to all market participants, *i.e.*, public information; and (3) *strong form efficiency* where stock prices fully reflect all information including public and private information, known to any market participant. Two decades later, Fama (1991) expanded the concept of these three categories as a) *tests for return predictability* (predicting future returns with the use of accounting or macroeconomic variables) instead of weak-form tests (concerned with

forecast power of past returns), b) *event studies* instead of semi-strong-form tests (of the adjustment of prices to public announcements), and c) *test for private information* instead of strong-form tests (of whether specific investors have information in market prices or not).

Going by the universally established theories, the author has dedicated five of his six articles to the weak and semi-strong form tests while one study is based on a survey on the market reaction to the new information announced in the Nepalese stock market.

In the book, there are two articles concerning the 'weak-form' tests. They are "*Efficient Market Hypothesis and the Emerging Capital Market in Nepal*" and "*Calendar Effects in the Nepalese Stock Market*." The empirical evidences have shown that the Nepalese stock market is not efficient in the weak-form, implying that stock prices in the market are largely predictable. Similarly, there is significant time-specific effect— technically known as calendar effect— on stock returns to the investors. The author has come out of the theoretical cants of 'January Effect.' Instead, he's found empirical evidences to establish the calendar effect from April-May (Baisakh) to July-August (Shrawan) in the Nepalese context.

It is believed that the semi-strong form of EMH has formed the basis for most empirical research (Russel and Torbey, 2009). Accordingly, author Dangol has also applied the semi-strong form in Nepal to test its stock market efficiency. Three research articles belong to this category: "*Unanticipated Political Events and Stock Returns: An Event Study*," "*Stock Market Reaction to Announcements of Dividend and Payout Ratio Changes*," and "*Abnormal Returns of Dividend Announcements: Evidence from Nepalese Stock Market*."

The book is basically a compilation of six articles either published earlier in different journals or based on the author's research work under the University Grants Commission (UGC). The author has put up much effort in accommodating 'effects' on stock returns from a wide range of factors including corporate announcements (dividend announcement), corporate policy (dividend policy) and political events.

Nevertheless, the book has no studies delving into 'day-of-the-week' effect as researched in the past by Mehdiian et al. (2001), Jaffe et al. (1985a), and Jaffe et al. (1985b) in foreign stock markets. Neither are there articles on investment-decision effect in the book, nor those on 'temperature' effect. It's worth recalling that also in Nepal, Bhattarai and Joshi (2007) had studied the 'temperature' effect.

Typically, ours is the first stage market, not even an emerging stock market (Shrestha and Sthapit, 2009). Therefore, the models developed from the developed markets alone do not apply properly to our 'primitive' market per se. The studies applying a clinical test through quantitative research might not be all instrumental in Nepalese context. So, our market is in need of more qualitative research that is lacking in the book; only exception being the sixth article based on market reaction survey.

Well formatted into a typical research article, the write-ups have beautifully performed literature review of past studies. The studies enshrined in the articles have applied and

tested many internationally accepted models in Nepalese market. The methodologies are consistent with the research objectives, something highly laudable of researcher Dangol. His real strength also lies in using relevant statistical and financial tools in data analysis.

Unpretentiously commenting, there is a strong trend towards commercialization of education and book-writing. Teachers at the university colleges in Nepal have drawn criticism for immersing into the hangover of writing 'wishy-washy textbooks' alone. So-called academics are unscrupulously hankering after money-making rather than researching and contributing something new to the existing knowledge. Very few would venture out to the research-based write-ups. One such personality is Jeetendra Dangol, lecturer of Public Youth Campus (Tribhuvan University). It's his commendable endeavour that has resulted from ample guts and resolve.

There is some room to improve print quality of graphic presentations, as well as page-formatting that could give a decent and reader-friendly look to the book.

In view of its exclusive focus and the locus of its contents, the book should prove a highly useful material for researchers, academics and policy-makers involved in the stock market sector. It could also justify the book-price. Kudos should go to the author for offering empirical evidences on efficient market hypothesis, one of the most talked-about issues in Finance today.

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