MARKET EFFICIENCY IN INDIA: AN EMPIRICAL STUDY OF RANDOM WALK HYPOTHESIS OF INDIAN STOCK MARKET – NSE MIDCAP

DR. SATISH KUMAR*; MR. LALIT KUMAR

*PROFESSOR & DIRECTOR
DEWAN INSTITUTE OF MANAGEMENT STUDIES, MEERUT,
UTTAR PRADESH TECHNICAL UNIVERSITY, LUCKNOW

**ASSISTANT PROFESSOR
DEWAN INSTITUTE OF MANAGEMENT STUDIES, MEERUT,
UTTAR PRADESH TECHNICAL UNIVERSITY, LUCKNOW.

ABSTRACT

As long as financial markets are concerned, for many years’ economists, statisticians and financial analyst have been interested in developing and testing models of stock price behaviour and their forecast. This study examines whether the Indian stock market is efficient if the stock returns follow a random walk. The study employs daily closing prices of NSE Midcap 50 Index for a time period of 15 Sept 2010 - 28 Nov 2014. The existence of random walk for NSE Midcap Index has been examined through autocorrelation, Q-statistics and the run test and finds that the Indian stock market was not efficient in the weak form during the testing period. The results suggest that the stock prices in India do not reflect all the information in the past stock prices and abnormal returns can be achieved by investors through exploiting the market inefficiency.

KEYWORDS: Autocorrelation tests, runs test, Random Walk Hypothesis (RWH), National Stock Exchange, NSE Midcap 50 F&O Index.

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