Revisiting Random Walk in Bombay Stock Exchange

Mousumi Bhattacharya,
Rajiv Gandhi Indian Institute of Management Shillong, India.
E-mail: msb@iimshillong.ac.in

Abstract

The paper attempts to investigate the return predictability and market efficiency in Indian stock market and explore if any particular industry in India behaves differently. India is an emerging country on a path of reforms and different industries are in different stages of reform. Hence information asymmetry is a possibility and there is a need to review the predictability of various segments of its market. The weak form of efficient market hypothesis in sectoral level of Bombay Stock Exchange is explored using the daily data for twenty two stock indices of Bombay Stock Exchange. Both parametric and non-parametric tests were conducted to check the market efficiency. The empirical results provide evidence for the absence of the weak form efficiency and random walk hypothesis in case of all the indices and the findings are consistent across the tests. This highlights the possibility of earning abnormal returns in the Indian stock market by formulating appropriate trading strategies that uses the inefficiencies in these markets.

Key Words: Efficient markets, random walk hypothesis, Variance Ratio Tests, Bombay Stock Exchange, Parametric Test, Non-Parametric Test.

JEL Classification: G10, G14