

Informational Efficiency and Adaptive Stock Markets

Abstract

The thesis addresses three important research questions on informational efficiency and adaptive stock markets. The first essay measures the degree of stock market efficiency, traces its evolution, and ranks the stock markets. It also identifies the factors associated with the evolution of stock market efficiency. The second essay examines how financial integration and contagion influence the semi-strong efficiency of the stock markets. The final theme of the thesis deals with the nexus between stock market liquidity and time-varying efficiency. An adaptive market framework is developed for the empirical examination. Three essays employ comprehensive and diverse data on stock markets from Asia, Europe, North and South America, Africa, and the Pacific Ocean. The thesis shows a varying degree of efficiency over the period and across the markets. It also shows how the markets are adaptive to the dynamic market environment. The growing stock market integration benefits domestic stock markets by quickly incorporating the global information, but the broader financial integration adversely affects the efficient functioning of the stock markets in the event of external shock through the contagion effects. This study documents mixed responses on stock market efficiency to various dimensions of liquidity. The study emphasizes the relevance of active portfolio management and the significance of innovation to survive in a dynamic competitive market environment. In such a market, a smart investment strategy demands the identification of periods of predictability and knowledge of the evolution of markets. Global investors need to overcome their homogeneity bias about a geographical region or type of market in investment decisions. The new generation emerging markets need to introduce capital market development plans and invest in trading infrastructure to improve liquidity and efficiency.

Keywords: Adaptive stock markets; EMH; entropy; stock market integration; financial integration; contagion; market liquidity