

LEVEL OF MARKET EFFICIENCY AND THE INVESTORS RATIONALITY



A THESIS

Submitted By:

Saraswati Shrestha

Makwanpur Multiple Campus

Hetauda, Makwanpur

TU Reg. No. 7-2-242-251-2002

Exam Roll No. 930

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the degree of
Masters of Business Studies (M.B.S)

Hetauda, Makwanpur

July 2010

RECOMMENDATION

This is certify that the thesis

Submitted by :
Saraswati Shrestha

Entitled:
LEVEL OF MARKET EFFICIENCY AND THE INVESTORS
RATIONALITY

has been prepared as approved by this department in the prescribed format of the Faculty of Management. This is forwarded for examination. We recommend this thesis for acceptance.

.....
Bin Bahadur Raut
Thesis Supervisor

.....
Jayaram Devkota
Thesis Supervisor

.....
Uddhab Prasad Sapkota
Co-ordinator, MBS Program

.....
Bachharam Adhikari
Campus Chief

VIVA-VOCE SHEET

We have conducted the viva-voce sheet examination of the thesis

**Submitted by
Saraswati Shrestha**

Entitled:

**LEVEL OF MARKET EFFICIENCY AND THE INVESTORS
RATIONALITY**

And found the thesis to be the original work of the student and written in according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master's in Business Studies (MBS)

Viva – Voce Committee:

Head Of Research Department:

Member (Thesis Supervisor):

Member (Thesis Supervisor):

Member (External Expert):

Date:

DECLARATION

I here by declare that the work reported in this thesis entitled **Level of Market Efficiency and The Investors Rationality** submitted to office of the Dean, Faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Bin Bahadur Raut and Mr. Jayaram Devkota.

.....
Saraswati Shrestha
(Researcher)

Date:

ACKNOWLEDGEMENTS

Writing this thesis has been rewarding experience for me as I have been obliged to collect the materials required and have had rewarding and supportive suggestions from the individuals to whom I owe my enormous debt.

My sincere gratitude goes to my thesis Advisors Mr. Bin Bahadur Raut, Mr. Jayaram Devkota and Mr. Uddhab Sapkota of Makawanpur Multiple campus for their encouragement, constructive suggestions and valuable guidance, who generously took time out from their own busy schedule.

I would like to express my gratitude to teacher Mr. Bishnu Dahal, Mr. Bijay Sharma, Administrative staff and all the Library staff of Makawanpur Multiple Campus who were very supportive and helpful to me.

I also owe an indebtedness to all authors whose writings have provided me the necessary guidance and invaluable materials for enriching my research paper in all possible ways. I am also gratefully indebted to all the staffs of SEBO/N and NEPSE for providing required data and information. Likewise, all the respondents are thankful for their suggestions and responding my questionnaire.

My special thanks go to my intimate friends Laxmi Wagle & Sujana Parajuli, and few of many names whose hands are always ready to help me.

I am beholden to my parents and all the family members, especially for my brother Suresh Shrestha for his encouragement and providing me a very friendly environment for my study and also I would like to thank Mr. Janak

Shrestha, Mr. Samraj Tamang, Mr. Sunny Lama and Mr. Mohan Timilsina for their continuous supports.

Last but not the least I would also like to thank Navaraj Luitel, Matribhumi Printing Service, Manakamana Chowk, Hetauda entire computer work.

Saraswati Shrestha

Hetauda-2, Makawanpur

Table of Contents

Contents	Page No.
Recommendation	
Viva-voce Sheet	
Declaration	
Acknowledgment	
Contents	
List of Tables	
List of Graphs	
Abbreviations	
CHAPTER –1: INTRODUCTION	1-9
1.1 General Background	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	6
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
1.6 Organization of the Study	8
CHAPTER – II: REVIEW OF LITERATURE	10-45
2.1 Theoretical Review	12
2.1.1 Expected Return of Fair Game Model	12
2.1.2 The Random Walk Model	14
2.1.3 Efficient Market Hypothesis	14
2.1.3.1 Weak Form Efficient Market Hypothesis (WFEMH)	16
2.1.3.2 Semi-Strong Form Efficient Market Hypothesis (SSFEMH)	16
2.1.3.3 Strong Form Efficient Market Hypothesis (SFEMH)	17

2.2	Test of Market Efficiency	19
2.2.1	Auto-correlation (Serial Correlation)	20
2.2.2	Run Test	20
2.3	Market Efficiency and the Rationality of Investing Public	21
2.4	A Review of Major Studies in General (Review from Article)	22
2.5	A Review of Major Indian Studies (Review from Article)	26
2.6	Review of Empirical Studies in Nepalese Context (Review from Article)	29
2.7	Review from Thesis	32
2.8	Review of Newspaper and Magazine	38
2.9	Research Gap	45
CHATER III: RESEARCH METHODOLOGY		46-59
3.1	Introduction	46
3.2	Research Design	47
3.3	Sample Period	48
3.4	Sample Number	48
3.5	Sources of Data	50
3.6	Methods of Data Collection	51
3.7	Research Variable	53
3.8	Research Tools	54
3.8.1	Auto Correlation (Serial Correlation)	54
3.8.2	Run Test	56
3.8.3	Statement of Hypothesis	58
CHAPTER – IV: PRESENTATION AND ANALYSIS OF DATA		60-109
4.1	A General Glance at the Performance of NEPSE	60
4.2	NEPSE Index	63

4.3	Test of Market Efficiency	66
4.3.1	Auto-correlation/ Serial Correlation	67
4.3.2	Run Test	71
4.4	Analysis of Primary Data	75
4.5	Analysis of Investors' Behaviour	92
4.5.1	Investor's Participation in NEPSE	95
4.5.2	Rationality of Nepalese Investors	98
4.5.2.1	Status of Nepalese Investors	98
4.5.2.2	Fundamental Analysis and the Nepalese Investors	99
4.5.2.3	Technical Analysis and the Nepalese Investors	103
4.6	Major Findings	105
CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATION		110-120
5.1	Summary	110
5.2	Conclusion	112
5.3	Recommendations	115

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table No. 3.1	List of Samples of Total Market Return	49
Table No. 3.2	List of Samples of Banking Stock Return	50
Table No. 4.1	Performance of NEPSE	61
Table No. 4.2	Result of Autocorrelation (Log of the daily market return-Rmt)	69
Table No. 4.3	Result of Autocorrelation (Log of the daily banking sector stock return-Rbt)	70
Table No. 4.4	Result of Run Test for Log Market Return (Rmt)	73
Table No. 4.5	Result of Run Test of Log Return for Banking Sector Stock (Rbt)	74
Table No. 4.6	Number of respondents Involved in Share Trading Activities	76
Table No. 4.7	Sector Having Better Investment Opportunities	77
Table No. 4.8	Generation of Idea to Invest in Share	78
Table No. 4.9	Impressive Characteristics in Share Investment	79
Table No. 4.10	Level of Return from Share Investment	80
Table No. 4.11	Ability of the Companies to Meet the Target as Mentioned in Prospectus	81
Table No. 4.12	Adequacy of Timely Information of Nepalese Securities Market	82
Table No. 4.13	Efficiency of Monitoring Authorities in Regulatory Activities	83
Table No. 4.14	Status of Grievances Handling of Investors by Different Institutions	84
Table No. 4.15	Analysis of Share Purchase Decision	85
Table No. 4.16	Analysis of Sell of Shares	86
Table No. 4.17	Analysis of Open-out-cry Trading System of NEPSE	87
Table No. 4.18	Comparison of Present Return and Expectation from Share Investment	88
Table No. 4.19	Level of Dishonest Activities in NEPSE	89
Table No. 4.20	Level of Investors' Awareness in the Securities Market	90
Table No. 4.21	Role of Whim and Rumors in Influencing the Decision of Investors in Share Investment	91

LIST OF GRAPHS

Graph No. 4.1	Performance of NEPSE	62
Graph No. 4.2	NEPSE Total Market Index	65
Graph No. 4.3	NEPSE Banking Sector Index	66

ABBREVIATIONS

&	-	And
AGM	-	Annual General Meeting
CDM	-	Central Department of Management
DJIA	-	Dow Jones Industrial Average
EMH	-	Efficient Market Hypothesis
et al.	-	And others
etc	-	etcetera
F/Y	-	Fiscal Year
GDP	-	Gross Domestic Product
i.e.	-	that is
IPOs	-	Initial Public Offerings
Ltd.	-	Limited.
MBS	-	Master of Business Studies
MC	-	Market Capitalization
NEPSE	-	Nepal Stock Exchange
No.	-	Number
NYSE	-	New York Stock Exchange
Rs.	-	Rupees
RWH	-	Random Walk Model
SEBO/ N	-	Security Board of Nepal
SFEMH	-	Strong Form Efficient Market Hypothesis
SSFEMH	-	Semi-Strong Form Efficient Market Hypothesis
T.U.	-	Tribhuvan University
WFEMH	-	Weak form Efficient Market Hypothesis