

Is Malaysian stock market efficient? Evidence from threshold unit root tests

Abstract

This paper investigates the behavior of Kuala Lumpur Stock Exchange Composite Index (KLCI) for the period from 1980:1 to 2008:8 using a two-regime threshold autoregressive (TAR) model with an autoregressive unit root developed by Caner and Hansen [Threshold autoregression with a unit roots, *Econometrics* 69 (6) (2001) 1555-1596] which allows testing nonlinearity and nonstationarity simultaneously. Our finding indicates that the KLCI is a nonlinear series that is characterized by a unit root process, consistent with the efficient market hypothesis.