

The evolution of stock market efficiency over time: A survey of the empirical literature

Abstract

This paper provides a systematic review of the weak-form market efficiency literature that examines return predictability from past price changes, with an exclusive focus on the stock markets. Our survey shows that the bulk of the empirical studies examine whether the stock market under study is or is not weak-form efficient in the absolute sense, assuming that the level of market efficiency remains unchanged throughout the estimation period. However, the possibility of time-varying weak-form market efficiency has received increasing attention in recent years. We categorize these emerging studies based on the research framework adopted, namely non-overlapping sub-period analysis, time-varying parameter model and rolling estimation window. An encouraging development is that the documented empirical evidence of evolving stock return predictability can be rationalized within the framework of the adaptive markets hypothesis. © 2010 Blackwell Publishing Ltd.