A ROBUST MEASURE OF RELATIVE INFORMATIONAL EFFICIENCY FOR THE MALAYSIAN STOCK MARKET

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A SUMMARY OF FRGS PROJECT

This section provides a brief report for the FRGS project (FRG0283-SS-2/2010), outlining the research problems, research objectives, contributions, data collection, methodology, key findings, policy implications, project output and the organization of this final report.

Research Problems

The term 'market efficiency' is generally referred to as the informational efficiency of financial markets which emphasizes the role of information in setting prices. More specifically, the efficient markets hypothesis (EMH) proposed by Fama (1970), defines a market as efficient when new information is quickly and correctly reflected in its current security price. Despite the voluminous literatures of EMH, the questions of how, when and why stock prices become efficient still remain unresolved. The problem is fundamental as it lies with the way informational efficiency has been examined in the extant EMH literature. In an extensive survey by Lim and Brooks (2011), the authors find that the bulk of the empirical studies test the efficiency of a stock market based on whether predictable patterns can be detected and profitably exploited (see references cited therein). This 'beat the market' version of the EMH is popular because it has direct implications for real world investment practices. Unfortunately, the research design confines market efficiency to a yes or no question, and hence do not shed much light on the underlying driving forces. Campbell *et al.* (1997) are critical of this all-or-nothing notion of absolute efficiency because perfect efficiency is an ideal state that does not hold in the real world.

As stock market plays an important informational role in the economic system, the research framework should directly capture the speed with which the stock price incorporates new information. In other words, it should focus on the information processing role of stock market which yields implications far beyond those to the