The efficient market hypothesis revisited: Evidence from the five small open Asian stock markets

Abstract

The efficient market hypothesis (EMH), which suggests that returns of a stock market are unpredictable from historical price changes, is satisfied when stock prices are characterized by a random walk (unit root) process. A finding of unit root implies that stock returns cannot be predicted. This paper investigates the stock prices behavior of five ASEAN (Association of Southeast Asian Nations) countries i.e., Indonesia, Malaysia, Philippines, Singapore and Thailand, for the period from 1990:1 to 2009:1 using a tworegime threshold autoregressive (TAR) approach which allows testing nonlinearity and non-stationarity simultaneously. Among the main findings, our results indicate that stock prices of Malaysia and Thailand are a non-linear series and are characterized by a unit root process, consistent with the EMH. Furthermore, we find that stock prices of Indonesia, Philippines and Singapore follow a non-linear series, however, stock price indices are stationary processes that are inconsistent with the EMH.