Cross-Country Determinants of Weak-Form Stock Market Efficiency

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Overview

- Assess weak-form market efficiency
- 50 countries
- 10 years from 1995-2005
- Univariate setting
  - liberalisation
  - Institutional collectivism
  - Governance
  - Short selling
  - Number of analysts
  - Macroeconomic factors
- Multivariate setting

Conclusion

- Cross country differences explained by
  - Quality of institutions
  - Capital account liberalisation
  - Investor protection
  - Macro-economic environment

General Comments

- Well written & comprehensive data
  - highly informative paper
- Interesting database of indices
  - E.g. trading systems variables, analysts etc
- Lengthily - 84p
  - Literature, justification of included variables
- Interpretation of the results
  - Short focus on most interesting results

Main Comments

1. **Robustness to choice of rolling window, *H***

2. **Dummy for Dev Markets and Em Markets**

3. **Significance levels**
   - **5% rather than 10%**

Implications for Univariate regressions

1. IOL is insignificant
   – but other 2 variables for fin lib still are
2. INDV_GH is insignificant
   – Appendix suggests limited data for IOL
   – Other individualism variable is significant
3. VA is insignificant
   – but all other variables of institutional quality are highly significant
4. SSale_BGZ is insignificant
   – Stock market regulation proxies are now all insignificant
5. Analysts is insignificant
6. TD_Open and GDP are both insignificant
   – Inflation is the only significant macroeconomic variable

Main Comments cont.

- High Correlation between some variables
- Multicollinearity
- No underlying model, but sufficient reasoning to pick between variables
- Parsimonious model

Considerations

- Great Database
- Results are suggestive & tentative
- Extremely promising
- Good job!