

## **Weak-form market efficiency of an emerging market: evidence from Colombo Stock Exchange (CSE)**

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Majority of efficient market research has focused on the developed markets. Few studies investigated about the capital markets in less developed or developing countries. Among them also studies relating to Sri Lankan context are very few. The objective of the study is to identify the amount of deviation of Colombo Stock Exchange (CSE) from Efficient Market Hypothesis (EMH). Study considered the data relating to CSE from 1985 to 2007. Sample includes daily price indices (All Share Price Index – ASPI) of all the listed securities on the CSE. All the daily share prices are converted to daily returns. In this process, today's index is divided by the previous day's index and obtains the natural log value of that calculated figures. For the time period dividends and stock splits are not considered for the return calculations. Thin trading or infrequent trading can introduce serious bias in empirical work. To avoid the possible bias the study use a longer time period, which reduce the problem of non-trading bias. The hypothesis of the study is to check whether the Colombo Stock Exchange is weak-form efficient. Study use both descriptive statistics and non-parametric test to provide evidences that the share return series follow a random walk. According to the descriptive statistics (mean, standard deviation, skewness, and kurtosis) the data series does not follow a normal distribution. The skewness coefficient in excess of unity, generally taken to be fairly extreme. So the distribution of stock return series on the CSE indicates that the distribution is not normal. The results of both descriptive statistics and non-parametric test provide evidence that the share return series do not follow random walk model. The issues are important to academics, security analysts, and security exchange regulatory bodies in their policy making decisions to improve the market condition.

**Key words:** Stock market, Weak-form market, Efficient market hypothesis, Colombo Stock Exchange, All Share Price Index

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