

UNIVERSITY OF MACAU
FACULTY OF BUSINESS ADMINISTRATION

**AN EVALUATION OF THE PREDICTIVE ABILITY OF
THE SPREAD BETWEEN EARNINGS YIELDS AND
INTEREST RATES FOR THE SHANGHAI AND
SHENZHEN A AND B SHARE INDICES**

Evan He
M-A2-6107-8

Thesis presented to the
Faculty of Business Administration
University of Macau
In partial fulfillment for granting of the MBA Degree
(In Banking and Finance)

2005

TABLE OF CONTENTS

CHAPTER 1 Introduction.....	1
1.1 China stock market.....	1
1.2 Research objective.....	10
1.3 Structure of this thesis.....	10
CHAPTER 2 Literature Review.....	12
2.1 Why spread may contain information about future return.....	18
2.2 Review of selected studies.....	19
CHAPTER 3 Methodology and Analysis Tools.....	24
3.1 Correlation/cross-correlation analysis.....	24
3.2 Regression analysis.....	24
3.3 Granger's causality test.....	25
3.4 assessing forecast performance.....	26
3.5 Methodology for exploring the possibility of profitable business strategy.....	26
CHAPTER 4 Database and Related Issues.....	30
4.1 Data on stock price index, E/P ratio and interest rate.....	31
4.2 Derivations of stock market return and spread.....	33
4.3 Data on transaction cost.....	34
CHAPTER 5 Empirical Results on Investigating Relationship between Spread and Return.....	36
CHAPTER 6 Empirical Results on Simple and Causal Regression Analysis...	38
6.1 Empirical results on simple regression analysis.....	38

6.2 empirical results on causal regression analysis.....45

6.3 empirical assessment of forecast performance.....54

CHAPTER 7 Empirical Results on Exploring the Profitability Trading Strategies.....56

CHAPTER 8 Conclusions.....60

REFERENCES.....61