

ABSTRACT

The main role of the capital market is the allocation of the economy's capital resources. In an "efficient" market, stock prices should fully and immediately reflect all available information at all times. This is known as the Efficient Market Hypothesis. There are three forms of efficiency concerning the adjustment of stock prices to the relevant information sets. Many tests have been performed for the "weak form" Efficient Market Hypothesis, the most noted one being the Random Walk Model, that is, successive price changes or returns of a stock are essentially independent. While many of the empirical studies have provided good support of the weak form Market Efficiency and the Random Walk Model in the more developed financial markets such as the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE), the market efficiency in the developing markets such as the Stock Exchange of Singapore (SES) and the Stock Exchange of Hong Kong (SEHK) is in question. In the case of Hong Kong, many studies have reported that the weak form Efficient Market Hypothesis for the Hong Kong stock market is refuted. This implies that the Hong Kong stock market is inefficient and as a result some capital would have been misallocated.

In testing the efficiency of the stock market, particularly in event studies, the assumption of normality plays an important role which is rarely acknowledged. It allows a version of the market model to be applied in testing the hypothesis of market efficiency and enables the researchers to

measure to what extent the empirical evidence supports the hypothesis. As a result, the validity of the normality assumption is, in fact, crucial in interpreting empirical results arising out of any financial researches using the normality-assumed model. However, such validity has often been overlooked in a number of empirical studies using data from the Stock Exchange of Hong Kong.

This dissertation examines the recent stock price behavior of the Hong Kong stock market. Specifically, the study attempts to investigate whether the market exhibits a normal distribution of returns as well as the weak form of efficiency or simply the independence of successive stock returns. A number of tests will be performed in order to get a clue to the probability distribution of returns of the Hong Kong stock market. Besides, both parametric and non-parametric tests will be used to measure the statistical dependence that exists in a stock return series. The results show that the normal distribution is not a good description of the data studied and that successive stock returns are not essentially independent.