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!