NEW EMPIRICAL EVIDENCE ON E.M.H.: CASE OF DEVELOPED AND EMERGING MARKETS – A MICROECONOMIC APPROACH

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Abstract

In today's globalized world, with interconnected global markets, and implicitly a higher level of sensitivity, one of the most important issues to be addressed is represented by the way market mechanisms are functioning. The main purpose of the present study is to answer the question of whether the selected markets are consistent with the Efficient Market Hypothesis, at a microeconomic level, by creating an Efficiency Index, using L. Kristoufek si M. Vosvrda (L. Kristoufek, M. Vosvrda, 2013, 184) method.

We use estimators of long term memory, fractal dimension, and approximate entropy, in order to create the Efficiency Index. The results are commented both at a macroeconomic level and at a microeconomic level, as we apply the methodology on 150 companies, part of 12 stock market indices from developed and emerging economies. We find that the results are consistent with those obtained by L. Kristoufek si M. Vosvrda (L. Kristoufek, M. Vosvrda, 2013, 184), with most of the efficient companies being part of the developed markets, while the least efficient companies part of emerging economies. This implies the existence of a market dynamics characterized by going through areas with distinctive levels of "informational efficiency".

The present study contributes to a better understanding of financial market mechanisms at a microeconomic level, by testing the Efficient Market Hypothesis, and constructing the Efficiency Index.

Keywords: Efficient Market Hypothesis, Efficiency Index, Hurst, Fractal Dimension, Approximate Entropy

JEL Classification: G14, G15, C10

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