

Dedicated to -

My Parents

PREFACE

Probably at no time since independence, has there been so much enthusiasm in Indian stock market as it was found in the share mania of eighties. After a prolong gap of many years the stock market once again became the subject of wide-spread interest among investors, market authorities, and the government; and their joint endeavour made a "new era" of rising stock price specially at the beginning of 90's.

During the hey-days of unprecedented share market boom, carefree investors were thrilled with the fabulous rates of return, the government was jubilant with incredible fund mobilising capacity of the market, and the market authorities were proud with the changing image and increasing importance of stock market in the national economy. Though there was enough indication, in those days, that the market was behaving irrationally, it was extremely volatile and it's future course of movement was simply unpredictable, they preferred to brush

aside all these danger signals temporarily. But the cost of ignoring the telltale signs and portents of disasters in the market was strongly felt after unearthing of everlargest financial scandal in the history of India, popularly known as "Security Scam". It exposed how different government controlled organisations along with many other existing structural as well as operational imperfections of capital market contributed to violent fluctuation in share prices. It shattered confidence of investors on capital and money markets and the functioning of these markets was thrown in disarray. The fate of new economic policy, the very foundation on which the boom was based, suffered a severe setback. Whole episode unveiled few naked truths and provoked endless debate on inadequacy and need for capital market reforms of our country.

At the height of the market buoyancy the social conversation was, in fact, dominated by the stock market and it can hardly escape the attention of any student of financial economics like me. The incidence of sky-rocketing high price in boom market followed by the precipitous price drops in post-boom period made me curious about the functioning of the stock market and ultimately inspired me to conduct an extensive study in this area. After the market debacle, the much talked about "meltdown" raised a number of questions such as — What factors were responsible for unbelievable rise and dramatic fall in share prices ? What were the roles of irrational waves of optimism and pessimism in the whole

episode? Can we depend on stock market for fair pricing thereby efficient allocation of resources? Is there any necessity to replace it, where possible, by other institutions that provide a more sober and hence more accurate measure of value? Should the government intervene in the operation of the market to protect the interest of investors? The present study entitled "Share Price Volatility and Efficient Market Hypothesis" is a modest attempt to answer the above questions. The study would also focus on the associated social cost and suggest remedies for capital market on whose performance success of new economic policy largely depends.

The study was undertaken at the suggestion of my teacher, Dr. M.K.Roy, Reader, Department of Commerce, University of North Bengal, under whose supervision the present work has been completed. I wish to express my deep indebtedness to Dr. M.K.Roy, who inspired me to pursue the study and exercised his profound scholarship and untiring care in getting the work completed.

The study has been enriched by the critical comments and valuable suggestions made by Dr. I.Ray, Lecturer, Department of Commerce, Dr. R.N.Bhattacharyya, Reader, Department of Economics, and Dr. B.P.Mishra, Professor, Centre for Himalayan Studies, University of North Bengal with whom I had the opportunity of discussing a number of conceptual issues. No words are enough to express my deep sense of gratitude to all

of them. I sincerely thank Mr. A.K.Roy, Lecturer, Department of Commerce, University of North Bengal, for his courteous help in preparing the computer programmes that were needed for processing the data and for making useful comments on earlier draft of the manuscript.

This is an appropriate occasion to acknowledge the help and inspiration provided to me by my departmental teachers, friends and wellwishers. I am also thankful to the officers and staff of North Bengal University Library, National Library - Calcutta, and Bidhan Chandra Memorial Library of IIM, Calcutta for making available all the library facilities needed for the work. For excellent and skillful typing, I thank to Shree Chanchal Kumar Pal.

Finally, I record my deep sense of gratitude to the University of North Bengal for granting me fellowship and financial assistance throughout the course of my research work.

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24th November 1993
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