UNIVERSITI TEKNOLOGI MARA

RANDOM WALK HYPOTHESIS: AN APPLICATION IN THE EMERGING STOCK MARKETS

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
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AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

The emerging stock markets namely Brazil, India, China and Indonesia had become a major players in the economy with large market capitalization of million to trillion per year and rapid growth of GDP, however limited information on how the stock behave whether the future prices can be predicted or not become a major threat to the investors and policy holders. Not only that, the problem with variance ratio test that sometimes are biased due to the severe size distortions and low power and right-skewed infinite samples, resulting in misleading statistical inference. Thus, this lead to the need to investigates the existences of random walk in the emerging stock markets. The objectives of this study are to investigate whether the Brazil, India, China and Indonesia stock market follow the random walk theory or not. This study using the monthly data of stock prices for all four stock market which are Brazilian Stock Exchange (Brazil), Bombay Stock Exchange (India), Shanghai Stock Exchange (China) and Indonesia Stock Exchange (Indonesia) from June 1997 to December 2017. The data was analysed using the Variance Ratio (VR), autocorrelation and unit roots test in order to test for the random walk. The study concluded that all the stock markets do follow the random walk theory but at certain lags. This study contributes to the existing literature by providing a study involving part of emerging countries and able to help the investors and policy holders making decisions in their investment in the future.

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