

## Is Information Risk Priced in Indian Stock Market?

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### Abstract

This study to investigate effect of informed trading on the pricing of securities at BSE using S&P BSE 500 stocks (April 2000-March 2017) by employing three different proxies of information asymmetry. The return differential amid information-sorted decile portfolios has been evaluated to spot the effect of information asymmetry on stock returns by employing (a) traditional measures of performance evaluation like mean, sharpe ratio, treynor ratio and information ratio, (b) regression models like the CAPM; Fama & French three-factor; Carhart's four-factor, information-augmented CAPM; information-augmented Fama& French three-factor and information-augmented Carhart's four-factor models and (c) ARDL model. The empirical evidence indicated that information risk is an important and independent factor to explain equity returns at BSE together with additional risk factors like market, size and value.

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**Keywords :** Trading, Stock, Return, Asset Pricing, BSE, S&P, Risk, Volatility, Information, CAPM

### I. Introduction

THE IDEA OF information asymmetry was introduced by Akerlof (1970) in a paper entitled "The Market for Lemons: Quality Uncertainty and the Market Mechanism". He builds up a model to elucidate the concept of information asymmetry in the market for "Lemons" by means of new and used cars (old and defective cars known as lemons) in the market. It addresses how information differences between buyers and sellers can cause market failure. In the presence of asymmetric information, used cars can price out new ones from the market because new cars are underpriced and used cars

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