

*Abstract of Doctoral Dissertation*

# **A Study on Random Walk Hypothesis of Selected Scripts in Bombay Stock Exchange<sup>1</sup>**

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## **I. Introduction**

A STOCK MARKET is said to be perfectly efficient if it is simultaneously allocatively efficient, operationally efficient and informationally efficient. According to Fama (1965), "The primary role of the stock market is allocation of ownership of the economy's capital stock. In general terms the ideal is a market in which prices provide accurate signals for resource allocation; i.e., market in which firms can make production – investment decisions and investors can choose among the securities that represent ownership of firms' activities under the assumption that security prices at any time fully reflect all available information." However, where resources are scarce the regulators must strive to make markets efficient to ensure optimum allocation of resources. The Random Walk model of weak form of efficient hypothesis implies that prices follow a random walk in which successive price changes have zero correlation (Trippi and Lee, 1996).

The successive price changes are independent and the claim of the technical analysts that they can predict future prices by studying historical prices is false. In emerging markets, like India, investors depend a lot on the advice of technical experts and their psychology is in conflict with the random walk hypothesis. The efficient market hypothesis states that current prices always 'fully reflect' available information, so that the only reason the prices change between  $t$  and  $t+1$  is the arrival of 'news or unanticipated events. The Efficient Market Hypotheses is based on the assumptions of zero transaction costs, freely available information and agreement among

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