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Testing weak-form efficiency in the Bahrain stock market

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Purpose

This study seeks to measure the behaviour of stock prices in the Bahrain Stock Exchange (BSE), which is expected to follow a random walk. The aim of the study is to measure the weak-form efficiency.

Design/methodology/approach

Random walk models such as unit root and Dickey-Fuller tests are used as basic stochastic tests for a non-stationarity of the daily prices for all the listed companies in the BSE. In addition, autoregressive integrated moving average (ARIMA) and exponential smoothing methods are also used. Cross-sectional-time-series is used for the 40 listed companies over the period 1 June 1990 up until 31 December 2000.

Findings

Random walk with no drift and trend is confirmed for all daily stock prices and each individual sector. Other tests, such as ARIMA (AR1), autocorrelation tests and exponential smoothing tests also supported the efficiency of the BSE in the weak-form.

Practical implications

The finding of the study is a necessary piece of information for all investors whether in Bahrain or dealing with Bahrain stock market. Listed firms could also benefit from the findings by seeing the true picture of their stock price. Since, Bahrain is considered as an emerging market, the new methodologies used could be replicated for all other emerging markets. In addition, the finding is used as a base for testing the market efficiency in the semi-strong form, which has not yet been tested by any researcher.

Originality/value

This study will add value to the literature of market efficiency in emerging market since it is the only study which covers all the listed companies and over a long period of time. To confirm the weak-form

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