

Non-linear approach to Random Walk Test in selected African countries 🛒

Emmanuel Joel Aikins Abakah; Paul Alagidede; Lord Mensah; Kwaku Ohene-Asare

+ Author & Article Information

International Journal of Managerial Finance (2018) 14 (3): 362–376.

<https://doi.org/10.1108/IJMF-10-2017-0235> Article history 🕒

Purpose

The purpose of this paper is to re-examine the weak form efficiency of five African stock markets (South Africa, Nigeria, Egypt, Ghana and Mauritius) using various tests to assess the impact of non-linearity effect and thin trading which are prevalent in African markets on market efficiency.

Design/methodology/approach

The weekly returns of S&P/IFC return indices for five African countries over the period 2000-2013 were obtained from DataStream and analyzed. The study adopted the newly developed Non-Linear Fourier unit root test advanced by Enders and Lee (2004, 2009) which allows for an unknown number of structural breaks with unknown functional forms and non-linearity in data generating process of stock prices series to test the Random Walk Hypothesis (RWH) for the five markets, and an augment regression model.

Findings

In light of the empirical evidence the author(s) using Non-linear Fourier Unit Root Test only fail to reject the RWH for South Africa, Nigeria and Egypt leading to the conclusion that these markets follow the RWH and weak-form efficient whilst Ghana and Mauritius are weak-form inefficient. Besides, evaluating non-linear models without adjusting for thin trading effect shows that, South Africa and Ghana markets are weak-form efficient while Nigeria, Egypt and Mauritius are not. However, after accounting for thin trading effect, the author(s) find that South Africa and Egypt markets follow the RWH. The findings imply that market efficiency results depend on the methodology used.

Originality/value

This paper provides further evidence on stock market efficiency in emerging markets. The finding suggests that thin trading and non-linearity effect influences markets efficiency tests in African stock

Keywords: [Africa](#), [Market efficiency](#), [Non-linearity](#), [Non-Linear-Fourier-Unit Root-Test](#), [Thin trading](#)

© Emerald Publishing Limited

Licensed re-use rights only

You do not currently have access to this content.

Sign in

Don't already have an account? [Register](#)

Client Account

Email address / Username

Password

[Reset password](#)

[Register](#)



Access through your institution

Purchased this content as a guest? Enter your email address to restore access.

Email Address

Pay-Per-View Access €35.00

 Buy This Article

Rental

This article is also available for rental through DeepDyve.

