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Market capitalization and efficiency. Does it matter? Evidence from the Athens Stock Exchange

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Abstract

The efficient market hypothesis (EMH) is tested in the case of the Athens Stock Exchange (ASE) after the introduction of the euro for three different indices. The underlying assumption is that stock prices would be more transparent; their performance easier to compare; the exchange rate risk eliminated and as a result we expect the new currency to strengthen the argument in favour of the EMH. The FTSE/ASE20, which consists of 'high capitalization' companies, the FTSE/ASE Mid 40, which consists of medium sized companies and the FTSE/ASE Small Cap, which covers the next 80 companies, are used. Five statistical tests are employed to test the residuals of the random walk model: the BDS, McLeod-Li, Engle LM, Tsay and Bicovariance test. Bootstrap as well as asymptotic values of these tests are estimated.

The random walk hypothesis is rejected in all three cases and alternative GARCH models are estimated.

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Notes

For more information on the indices and their composition visit <http://www.ase.gr> and <http://www.ftse.com>. The data are available free from <http://www.enet.gr/finance/finance.jsp>.

Note that fewer observations are available for the FTSE/ASE Small Cap since it started later than the other two.

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