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Volume 16, 2006 - [Issue 18](#)

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A non-parametric assessment of weak-form efficiency in the UAE financial markets

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Pages 1365-1373 | Published online: 02 Feb 2007

 Cite this article  <https://doi.org/10.1080/09603100500447594>

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Abstract

This paper tests for market efficiency in the represented sectors of the Dubai Financial Market (DFM) and the Abu Dhabi Securities Market (ADSM). Using daily sectoral indexes between 2000 and 2005, variance ratio tests reject the random walk hypothesis in all sectors of the UAE financial markets except in the banking sector of the DFM. Returns in the two financial markets are negatively serially correlated, thus suggesting the presence of a Bull market. Runs tests find insurance in the ADSM to be the only weak-form efficient sector.

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Acknowledgements

I would like to offer my sincere gratitude to Ken Wilson for his guidance and support with this project. I also would like to thank Ms. Al Falasi (DFM) and Ms. Al Muhiri (ADSM) for their help with the data.

Notes

¹ These results are consistent with Lo and MacKinlay ([1988](#)) and Poterba and Summers ([1988](#)) (for short time horizons).

² Source: Central Bank of the UAE, Annual Report, 2004.

³ The industrial sector does not report its index as it is represented by only one firm in the DFM.

⁴ Source: Central Bank of the UAE, Annual Report, 2004.

⁵ Because of the inevitable heteroscedasticity in the data, the latter statistic is given the most attention.

⁶ This procedure have been described extensively in the published literature (e.g. Urrutia, [1995](#)).

⁷ Insurance firms represent about 22% of the total firms listed in the ADSM. The insurance sector in the UAE is the largest in the GCC and is expected to double by 2010. It is free from government regulation and generates most of its revenues from logistics due to high inflows and outflows of goods. This sector is highly liquid and, as of July 2005, has reached a capitalization of about US \$3.5 billion.

⁸ Mean reversion can suggest market corrections, corporate exploitation of competitive advantage, or corporate reaction to a competitor's competitive advantage (Haugen, [2001](#)).

⁹ In late August 2005, the DFM suffered a major setback as a result of bogus trading of the Dubai Islamic Bank (DIB) shares. Two individuals allegedly initiated the trading of about US \$2.6 billion of DIB stocks on the same day, resulting in an increase of 7.6% in DIB shares. As this represented about 87% of the entire market volume, the DFM and Emirates Security and Commodities cancelled all DIB transactions for that day and

referred the case to the local authorities (Source: Oxford Business Group, <http://www.oxfordbusinessgroup.com>).

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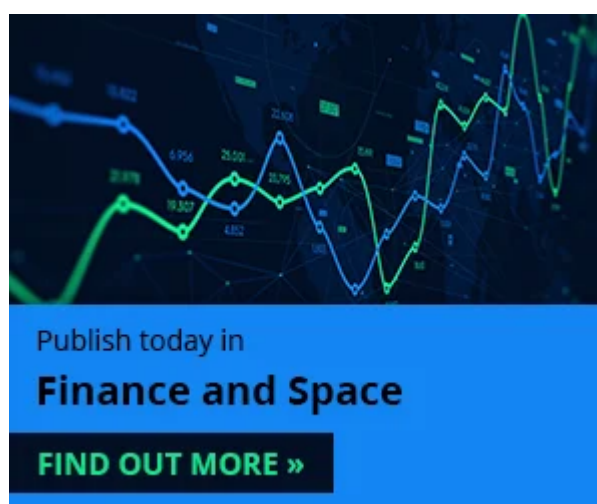
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