

LEAD-LAG RELATIONSHIPS IN STOCK MARKET RETURNS: A TEST OF MARKET EFFICIENCY IN SRI LANKA

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ABSTRACT

This study examines the semi-strong form efficiency of the Colombo Stock Exchange using Granger causality test and a modified version of the market model on weekly indices of 14 sectors for the period January 1993 to December 1997. Only three sectors are found to be semi-strong form efficient when the overall period is considered. A majority of the sectors lag the market indicating the possibility of predicting market movements from the sectoral indices which refutes the semi-strong version of the Efficient Market Hypothesis (EMH). When the sample is divided into three sub-periods and tests are carried out, consistent results are obtained. Findings have important implications for investors, security market analysts and stock market regulators and government policy makers. Since this is a macro-level study, further investigations are necessary to confirm the results of this study using individual share prices of companies for a longer period.