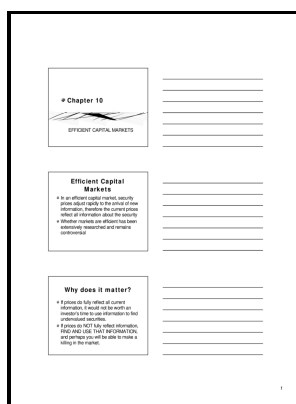


Efficient capital markets.

- - Capital Market Efficiency



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Efficient Capital Markets

Some economists, admittedly a minority, believe that the 1987 crash and the Internet run-up and fall are consistent with market efficiency. Management compensation packages tied to stock performance are one way in which stockholders align management's interests with their own. At the time, these securities were selling for much less than face value because people were uncertain whether they would ever be redeemed.

Capital Market Efficiency

This form of efficiency believes that there is no way to earn excess returns based on both public and private information. Wiley is a global provider of content and content-enabled workflow solutions in areas of scientific, technical, medical, and scholarly research; professional development; and education. In 1953, British statistician Maurice Kendall documented statistical independence in weekly returns from various British stock indices.

Capital Market Efficiency

However, these anomalies could be due to misspecification of the models used in the tests, or to institutional factors such as the impact of taxes , rather than market inefficiency. Efficient Capital Market In real life, all the assumptions given under the perfect capital market may not be realistic.

Capital Market Efficiency

Consequently, the new evidence of predictability in index and portfolio returns amounts to a rejection of the constant expected returns model that was implicit in definitions of weak-form efficiency. Thus, a superior analyst can profit from trading on the discovery of, or a better interpretation of, public information.

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In the United States, reliable information about firms is relatively cheap to obtain partly due to mandated disclosure and partly due to technology of information provision and trading securities is cheap. Finally, there are policy implications of evidence on market efficiency. More serious challenges to the EMT emerged from research on long-term returns.

Efficient Capital Markets

Remember in the discussion under perfect capital market, we said one of the assumptions of a perfect capital market is that there are no transaction costs and that is one of the chief reasons why it is impracticable. Although the EMT applies to all types of financial securities, discussions of the theory usually focus on one kind of security, namely, shares of common stock in a company.

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Elton, Edwin, and Martin Gruber. Netter is a finance professor and an adjunct law professor at the University of Georgia. As an Amazon Associate I earn from qualifying purchases.

Capital Market Efficiency

Authorized users may be able to access the full text articles at this site. That is, periods of relatively high returns tend to be followed by periods of relatively low returns and vice versa. This is as would be anticipated in an efficient market, where expected returns vary with economic conditions.

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