

Market Integration as an Alternative Test of Market Efficiency : A Case of Indian Stock Market

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Using the principle that market integration refutes market efficiency, an attempt is made in this paper to examine the Indian stock market efficiency by using two market integration approaches, viz., the Ravallion, and Cointegration and error correction approaches. The data used are the RBI monthly aggregate share indices relating to the all India, and five selected regional stock exchanges, viz., Bombay, Calcutta, Madras, Delhi and Ahmedabad, during the period 1980-1993. The results show that there is no evidence in favour of market efficiency of Bombay, Madras and Calcutta stock exchanges while contrary evidence is found in case of Delhi and Ahmedabad.

Introduction

Among the various functions of stock exchange, provision for liquidity of capital and continuous market for securities are considered as prime functions from the point of investors. The Government of India has taken steps to ensure the above mentioned functions by enacting various laws from time to time. The operations of the stock exchange are governed by: (i) Securities Contract (Regulation) (SCR) Act 1956; (ii) the Securities and Exchange Board of India (SEBI) Act, 1992 and (iii) Bye-laws of the stock exchange. The SCR Act regulates the business of trading on the stock exchanges and other related matters like listing of securities, transfer of securities etc. The function of SEBI is crucial in regard to investor protection, fair trading practices, promotion of efficient services by brokers and other intermediaries. In addition to call for special audit and impose fines, SEBI is also empowered by the Central Government to supercede the governing board of the stock exchange. Bye-laws of the stock exchange concern with normal proceedings of that exchange such as opening/closing of the stock exchange, timing of trading, fixation of margins, settlement and clearing of the trading etc.

In India, there are regional 21 stock exchanges recognized by the SCR Act, 1956. Like in other developed markets in the world, Indian