

Bahria Institute of Management and Computer Sciences
Department of Management Sciences

Final Project Approval Sheet
Viva-Voce Examination

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Topic of Research: "The lead-lag relationship between large and small cap portfolios returns in KSE."

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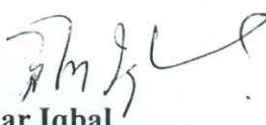
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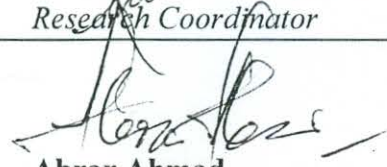

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ABSTRACT

This Research was accomplished by taking monthly large cap portfolios and small cap portfolios returns over the period of January 2000 to December 2003. In this research, evidence exhibits that large Cap portfolios lead small cap portfolios returns in the stated period, due to their lead-lag relationship. However, the results do not show any strong evidence of small cap portfolios leading large cap portfolios according to Lo and MacKinlay (1990), found that returns on large portfolios lead returns on small portfolios but not vice versa. It was analyzed by forming autocorrelation structure of returns on selected stocks listed at Karachi stock market. Firstly, to examine whether autocorrelations in portfolio returns exist. However, further findings of the research reveal that all orders of auto correlation function between large and small cap portfolios are negative and significant except third order. It was also found that the lead-lag effect increases with the volatility of returns due to their asymmetrical movements based on proposed model.

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