

DOES KSE-100 INDEX FOLLOWS A RANDOM WALK:
AN EMPIRICAL STUDY



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ABSTRACT

Random walk hypothesis state the prices move randomly and the past prices are not helpful in predicting future prices. Many researches so far have been conducted to prove that hypothesis using different models and approaches. The results of these studies are contradictory. Some authors have proved that prices follow random walk while some authors have opposite opinion.

In order to prove that hypothesis, in this paper Karachi stock exchange 100 index has been analyzed for random walk during July-1994 to July-2004. The index has been tested for normality, autocorrelation using Q-statistic & Dickey-Fuller test. The results support that KSe-100 index follow random walk in both weekly and monthly return series.

Because the nature of stock price movement is complex therefore it has been recommended that new study could be undertaken that should also incorporate the dividends and stock spit impact on the returns, and random walk hypothesis can be retested using more powerful models like variance ratio test.

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