# Semi-Strong Form Efficiency of Indian Stock Market in Post-Reform Period: An In-Depth Analysis

The Indian stock market has undergone significant transformations since the economic reforms of 1991. These reforms aimed to liberalize the economy, reduce government control, and promote foreign investment. As a result of these reforms, the Indian stock market has become more integrated with the global markets and has attracted substantial foreign capital inflows.

The semi-strong form of market efficiency suggests that all publicly available information is reflected in the stock prices. In other words, it implies that it is not possible to consistently outperform the market by simply using publicly available information. This study aims to investigate the semi-strong form efficiency of the Indian stock market in the post-reform period.

There is a vast body of research on market efficiency, both in the developed and emerging markets. The semi-strong form of market efficiency has been widely tested using various methodologies. Fama (1970) conducted one of the earliest studies on market efficiency. He found that the returns on a portfolio of stocks that were selected based on publicly available information were not significantly different from the returns on a randomly selected portfolio.

**Semi-Strong Form Efficiency of Indian Stock Market in Post-Reform Period** by Robert Dugoni

5 out of 5

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Jensen (1968) further extended Fama's work by developing the Jensen's alpha measure. Jensen's alpha measures the excess return of a portfolio over and above what would be expected from a diversified portfolio. A positive Jensen's alpha indicates that the portfolio manager has the ability to consistently outperform the market.

In the Indian context, there have been a number of studies on market efficiency. Damodaran and Naik (2004) found that the Indian stock market exhibited semi-strong form efficiency during the period 1993-2003. However, they found that there was some evidence of market inefficiency during the period of the global financial crisis.

This study uses daily data on the S&P BSE Sensex index from January 1992 to December 2022. The data was obtained from the Bombay Stock Exchange website. The study employs the following methodologies to test for market efficiency:

- Event study methodology: This methodology is used to examine the impact of specific events, such as earnings announcements, on stock prices.

- Regression analysis: This methodology is used to test the relationship between stock returns and publicly available information, such as earnings, dividends, and economic indicators.
- Jensen's alpha analysis: This methodology is used to measure the excess return of a portfolio over and above what would be expected from a diversified portfolio.

The results of the event study methodology show that the Indian stock market reacts efficiently to major news events. For example, the Sensex index rose significantly following the announcement of the economic reforms in 1991. Similarly, the Sensex index fell sharply following the terrorist attacks of September 11, 2001.

The results of the regression analysis show that there is a positive relationship between stock returns and publicly available information. This suggests that investors are able to use publicly available information to make informed investment decisions.

The results of the Jensen's alpha analysis show that there is no evidence of consistent outperformance by any portfolio manager. This suggests that the Indian stock market is semi-strong form efficient.

The results of this study suggest that the Indian stock market is semi-strong form efficient in the post-reform period. This means that it is not possible to consistently outperform the market by simply using publicly available information. This finding is important for investors as it suggests that they should focus on long-term investment strategies rather than trying to time the market.

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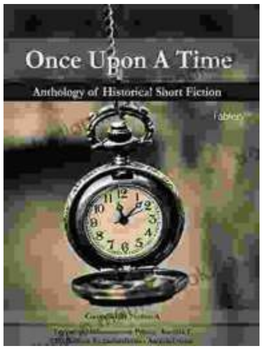
A graph showing the performance of the S&P BSE Sensex index from January 1992 to December 2022.

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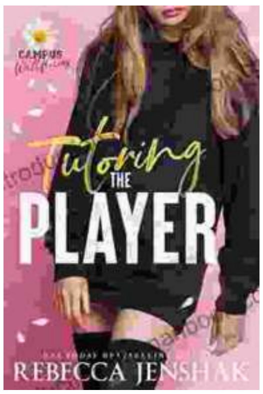


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