**TEST OF THE WEAK FROM EFFICIENT MARKET HYPOTHESIS ON THE KUALA LUMPUR STOCK EXCHANGE**

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# ABSTRACT

The objective of this study is to examine whether or not the Kuala Lumpur stock exchange (KLSE), the only major share exchange in Malaysia, conform to the weak form of the efficient market hypothesis (EMH). This study is conducted on 60 shares selected from 100 pool of shares listed in Kuala Lumpur Composite index (KLCI) that represent the entire share market, and that were traded on a weekly basis from January 1991 to August 1999.

Two primary null hypotheses are tested. Serial collection coefficient test and Q-statistic test use to test the first null hypothesis which states that the correlation coefficient of successive percentage share price changes is zero. Runs test uses to test the second null hypothesis which states that the percentage changes in share price are random. The "acceptance" of this null hypothesis indicates KLSE conformity to the weak form of the EMH.

Furthermore, the spearman rank correlation coefficient test uses to test the null hypothesis which states that the efficiency of share is independent of their continuity in trading.

Based on the serial correlation test result for individual lag, a high percentage of share exhibited independence between the percentage prices change at time t and the percentage prices change at time t + k, for k = 1, 2, 3, 4, 5, 6, 7 and 8.

Based on the Q-statistic result for overall serial correlation test, a high percentage of shares exhibited independence among the percentage price changes. Only a small percentage of shares exhibited dependency between the past prices change and future prices change.

Based on the run s test result, 100 percent of shares exhibited non-randomness in the percentage price changes. Based on the spearman rank correlation test result, a high percentage of shares exhibited independence between the percentage prices change at time and the percentage prices change at time t + k. the result indicated that the efficiency of a share market is independent of a share's continuity in trading.

As a whole, this thesis provides additional evidence that a thin market is less efficient in the weak form of the EMH compared to larger share market in the United States.

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