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**Market Response to Publicly Available Information and
Capital Market Efficiency: Evidence from Colombo Stock
Exchange**

By

D.G.Dharmarathna

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University of Colombo

Abstract

Recognizing the requirement of a comprehensive analysis of stock market response to the publicly available information, this study investigates the effect of information content in stock splits, bonus issues, dividends, changes in executive directors and right issues on stock returns in Colombo Stock Exchange (CSE). The empirical knowledge on this regard is limited as most of the previous studies concentrate on either a very few numbers of events or they are limited by the method implemented. The event study method is frequently used with Market Model, Mean Adjusted Model, and Market-Adjusted Model previously. However, this study enlightens the event study method even by incorporating stock volatility clustering phenomenon to the Market Model. It is further extended with the application of time series techniques. The sample period is restricted from 2009 to 2014 due to the trend shift in CSE following end of the civil war. However, the sample period is further downward extended as and when the number of events found inadequate. Thus, 30 stock split announcements, 27 bonus share issue announcements, 221 final dividend announcements, 148 interim dividend announcements, 156 public announcements of changes in executive directors, and 40 public announcements of right issues are considered.

Results generated from 31-day window indicate that the market responds positively to the stock split announcement in CSE which is consistent with the Information Content Theory. As expected in the theory, announcement of bonus shares issues and the announcement of both final and interim dividends significantly and positively influence to stock returns on the event date. Further, these abnormal returns are significant before and after the event. The announcements on changes in executive

directors and right issues found statistically insignificant on the event date, but negatively significant before and after the announcement. Further, presence of earlier or/and delayed significant abnormal returns indicates that stock prices do not reflect the publicly available information instantly and accurately. Therefore, CSE is not consistent with semi-strong form efficiency hypothesis. Thus, this study intensifies the requirement of Securities and Exchange Commissions' intervention for the efficient information dissemination in the CSE.

Keywords: ARMA, Event Study, GARCH, Information Efficiency, and Market Model