

Intrinsic bubbles and Granger causality in SET Index

ABSTRACT

Many previous studies have attempted to identify stock market efficiency by determining the relationship between changes in earnings and future stock returns; if the market is efficient, stock prices will roughly track earnings over time. The empirical results are yet inconclusive. Using US market data, Chen et al. (2009) found such relationship when the markets have no intrinsic bubble. Differentiates during bubble and no bubble thus provide clear pattern of this relation. This study examines this claim in the Stock Exchange of Thailand using Froot and Obstfeld (1991) intrinsic bubble model. The result reveals that changes in earnings Granger-cause future stock returns only in no bubble period, implying the Stock Exchange of Thailand is inefficient which is in line with previous studies, for example, Kantakalung (1998) and Vongchavana (2009).