

Stable, Unstable and Adaptive Stock Markets: A Tale of Market References

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Abstract

Purpose of the Study: The present study explores if the linear CAPM vis-à-vis its autoregressive distributed lag (ARDL) augmentation model stands up to expectations at the stable, unstable and adaptive references of the NSE stock market in India.

Study design/methodology/approach: With a sample of the NSE Nifty stocks in India during April 3, 2000 and January 14, 2019, methodologically, this study firstly considers if the CAPM and its ARDL augmentation can explain stocks' returns at the full-length data, and then, it considers the same at the market references of the pre-2008-09 financial crisis (stable market), during the financial crisis (unstable market) and the post-financial crisis (adaptive market).

Findings: With the data of nine stocks from the Nifty, this study shows that the linear CAPM has little explanatory powers at the both cases of use of the full-length data and the different market references while the ARDL augmentation of the same has better explanatory powers in all the cases.

Implications of the study: The mutual fund managers can identify effects of investors' reference-dependence of market situations along with the overall market impacts. This study shows the extents of such reference dependencies with the data of Nifty stocks.

Originality/value: With the ARDL model, the static CAPM view is calibrated with the dynamic reference-dependence perspectives along with their behavioral applicative values.

Keywords: *Efficient Market Hypothesis; Fractal Market Hypothesis; Chaos Theory; Behavioral Economics; Adaptive Market Hypothesis.*