

Testing the Rational Expectations Hypothesis on the Retail Trade Sector Using Survey Data from Malaysia

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Abstract

The rational expectations hypothesis states that when people are expecting things to happen, using the available information, the predicted outcomes usually occur. This study utilized survey data provided by the *Business Expectations Survey of Limited Companies* to test whether forecasts of the Malaysian retail sector, based on gross revenue and capital expenditures, are rational. The empirical evidence illustrates that the decision-makers expectations in the retail sector are biased and too optimistic in forecasting gross revenue and capital expenditures.

Keywords: *REH, Unbiasedness, Non-serial Correlation, Weak-form Efficiency*

I. Introduction

Expectations affect the behavior of people in firms, households and the government. The incentive to use expectations becomes stronger as the potential “profits” begin rising (Sargent, 2008). Investors decide to invest when they expect a stock will yield superior returns; consumers decide to consume less when they expect the recession will persist; firms decide to expand their business when they expect the profit opportunities to be higher; and the government decides to use a monetary, or fiscal, policy when they expect the policy to boost economic performance.

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