

Evidence on the Day-of-the-Week Effect and Asymmetric Behavior in the Bombay Stock Exchange

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This study examines the existence of day-of-the-week effect and asymmetrical market behavior in the Bombay Stock Exchange (BSE) over the pre-9/11 and post-9/11 sub-periods. This study found the existence of significant positive Monday effect and negative Friday effect during the pre-9/11 sub-period. Further analysis using the EGARCH and EGARCH-M models revealed the asymmetrical market reaction to the positive and negative news in BSE. Moreover, significant day-of-the-week effect is found present in BSE regardless of sub-periods, after controlling for time-varying variance and asymmetrical market behavior.

Introduction

A major concern in the market efficiency literature is the existence of calendar anomalies or seasonality in the stock market returns. Within this burgeoning literature, one of the most well-known calendar anomalies comprises the day-of-the-week effect, in which the mean return on Friday is normally higher compared to other days (Cross, 1973; and Gibbons and Hess, 1981) and the return on Monday is usually negative (Gibbons and Hess, 1981; and Harris, 1986). Empirical studies have found that the day-of-the-week effect appears in the largest stock market of the world (the US), and in other developed markets such as the UK, Germany and Japan (see, for instance, Gibbons and Hess, 1981; Jaffe and Westerfield, 1985; Bowers and Dimson, 1988; Lakonishok and Smidt, 1988; Arsal and Coutts, 1996; Wang *et al.*, 1997; and Apolinario *et al.*, 2006, for empirical studies on developed markets). Apart from developed markets, there have been other studies such as Aggarwal and Rivoli (1989), Wong *et al.* (1992), Clare *et al.* (1998), Brooks and Persaud (2001), Kok and Wong (2004) and Hui (2005) which demonstrated that emerging Asian stock markets are not free from such effect.

Among those emerging Asian markets, one of the most appealing markets is the Indian market. The Bombay Stock Exchange (BSE) of India¹ is well-known as one of the oldest stock exchanges in Asia. There are three main indices on the BSE: BSE Sensitive Index (Sensex), Economic Time Ordinary Share Price Index (ET), and BSE National Index (BSENI). BSE Sensex, also called the 'BSE 30', is a value-weighted index composed of 30 companies. These companies have the largest and most actively traded stocks, and are representative of various

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