Abstract

In the last decade, the efficient market hypothesis and its validity for emerging markets grew as a fertile topic of debate in Finance. However, the dilemma of market efficiency still remains intractable. It is more likely that any literature review in respect of market efficiency would produce contradictory results: for a single paper producing empirical evidence supporting the market efficiency, we can perhaps find a contradictory paper which empirically establishes market inefficiency. Paradoxically, popular models in finance developed in 1970s or 1980s were based on the assumption that the market under consideration was efficient. The conventional bond or stock or option pricing models are common examples of this type. In an alternative approach, we have worked out a model which incorporates market sentiments in the domain of the standard rational model of asset pricing. Our model would be well applicable for a 'less than' efficient market and, therefore may be the useful input in investors' policies.

JEL Classification: G12, G14

Key Words: Capital Asset Pricing Model, Arbitrage Pricing Theory, Efficient market hypothesis