c722583 MAJOR Finance KEY WORD INCOMPLETE INFORMATION / COMMON STOCK RETURN / CAPITAL ASSET PRICING MODEL. THESIS ADVISOR : CHARLIE CHAROENWONG, Ph.D. THESIS COADVISOR : ASSIST. PROF. AEKKACHAI NITTAYAGASETWAT, Ph.D. 131pp. ISBN 974-332 - 548-4.

Merton (1987) stated that the market is not complete, information is not instantaneously available and disseminated to all investors. As a result it incurs cost of incomplete information, and the systematic risk is not the only factor that affects the expected return as in the Capital Asset Pricing Model - CAPM (Sharpe (1963,1964), Treynor (1961), Mossin (1966).) The un systematic risk, the firm size, and the investor base also have the effect

This study is conducted to mainly test Merton (1987)'s model whether the incomplete information has any effect on Thai Stock Market or not. Three empirical methods are imployed namely the portfolio formation method, the ordinary least square regression model, and the simultaneous regression method. All the stocks traded on the Main Board and Foreign Board are used from 1992 to 1996. Portfolio formation method uses two control variables which are the size proxied by the market value of the firms and the information effect proxied by number of analysts following the firms from I/B/E/S Database. The results are inconclusive. Using the ordinary least square regression of annual abnormal return, the results confirm the study done by Merton (1987) that not only the systematic risk affects the expected return. However, the unsystematic risk does not show any significant effect. Firm size effect is also detected with the higher return on the smaller firms. This effect is consistent with Banz (1981), Reinganum (1981), and others but it is opposite to Merton. Incomplete informatin effect is not significantly found. Using the annual data from 1996 and 1997, the simultaneous regression is run having the stock return and number of analysts as the endogenous variables. The result shows that number of analysts have the positive effect on return but return does not affect number of analysts. The positive effect of incomplete information is against Merton, and others who find the negative effect. The rationale behind maybe because it takes some time for the information to be absorbed in the stock price in the Thai market. Also number of samples are quite small, with about 300-400 stocks traded during 1992 and 1996. And the trading of stocks on the Foreign Board is quite illiquid. As a result, to price any asset, the effect of incomplete information should be taken into consideration as well. CAPM should, therefore, be used with care for the Thai Market.

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