Abstract

Performance of stock markets is determined by three classes of variables: macroeconomic indicators, industry & firm heterogeneity and third country effects. When assessing performance of a stock market index, impact of industry & firm heterogeneity is marginal as it is already embedded in the index through its constituent companies. This paper will therefore focus on the other two. Chinese stock market was selected as an application as their performance compared to other domestic indicators (mainly GDP growth) is considered inferior by many researchers. Using econometric framework for panel data and a Bayesian extension, the paper estimates multiple models of Chinese stock market performance examining individual determinants of it. Subsequently, it predicts development of theoretical prices of two main Chinese stock indices on two time samples until 2013. The paper then demonstrates underperformance of Chinese stock market by comparing the modeled prices to actual prices realized on the market.

JEL Classification	C23, C51, C53, G15, G17
Keywords	underperformance, panel data, fixed effects model, Bayesian Model Averaging

Author's e-mail	roman_kovac@ymail.com
Supervisor's e-mail	karel.bata@seznam.cz