Book review : Capital Markets and Investment Decision Making

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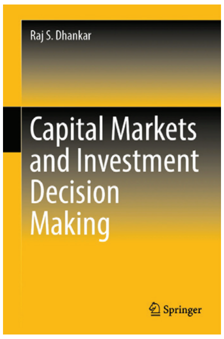
BOOK REVIEW



Capital Markets and Investment Decision Making
Edited by Raj S. Dhankar

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Finance as a discipline has evolved greatly since the late 1960s. The theories and models such as the Capital asset pricing model – CAPM, Arbitrage pricing theory -APT and the option pricing model, developed mainly in the 1970s and applied worldwide over the years, have given finance a modern orientation. These capital market models have been criticised for not delivering the desired results, especially after the 2008 financial crisis. In fact, numerous research papers have recently appeared that seriously question the validity and application of these models. Investment decisions are so closely linked to the functioning of capital markets. This book addresses capital markets and investment decisions, focusing on the globalisation of the world economy. It presents empirically tested results from Indian and Southwest Asian stock markets and offers valuable insights into the functioning of Indian capital markets.

The book is 355 pages long and written in English. It is divided into four parts. At the beginning of the book is a preface, contents, information about the author and abbreviations, while an index is located at the end of the book. Each chapter includes an introduction, conclusion and references.

The first part of the book, ***Capital Markets Operation***, consists of five chapters. With the exception of the first chapter, all chapters include a literature review, research methodology, and empirical results after the introduction. The first chapter provides an overview of the psychological phenomena that influence prices in asset markets. The second chapter explains the importance of the settlement and unwinding processes of capital market infrastructure, while the third chapter explains stock market trading and long-run reversal effects. Chapter 4 contributes to the current literature by providing evidence of these effects in one of the fastest growing economies: India over the study period from 1997 to 2013. Chapter 5 re-examines the presence of momentum and overreaction phenomena in the Indian stock market, one of the world's leading emerging markets, by applying various testing methods to assess the robustness of the results, taking into account size and value effects.

The second part of the book, ***Global Markets and Investment Decisions***, consists of five chapters and deals with the increasing interconnectedness of financial markets in the context of globalization. The sixth chapter deals with calendar anomalies in the stock market. Volatility, instability, and integration of stock market returns are explained in chapters 7 and 8. The empirical results show the dynamic cointegration relationship in the volatility of the U.S. and Indian stock markets. In Chapter 9, the author focuses on the volatility of the Indian and U.S. stock markets, the measurement of conditional volatility, the prediction of the conditional volatility of the U.S. and Indian stock markets, and the study of the relationship between the conditional volatilities of these two markets. Chapter 10 gives us background information on the markets in South Asia and provides brief background information on the stock markets of India, Sri Lanka, and Pakistan.

The third part of the book, ***Capital Structure, Value of Firm and Investment Strategy,*** consists of five chapters. The main objective of this part is to find out whether there is an optimal capital structure in Indian private firms, both at the micro and macro levels, and whether financing decisions affect firm value. Another focus is to understand behavioural finance theory, irrational investor behaviour and psychology, as these are critical factors that influence stock prices in the limited arbitrage stock market. It is important to understand investor sentiment because it provides insight into the biases in investors' stock market forecasts. Second, they show us the opportunities to earn additional returns by exploiting these biases. Chapter 14 examines the profitability of momentum and long-term contrarian strategies in the Indian stock market, one of the largest emerging markets. It also examines whether the high returns of these strategies are not due to the use of an inappropriate method for calculating excess returns

Finally, the fourth part deals with ***emerging topics in finance*** such as behavioural finance, Islamic finance, and international accounting standards. Chapter 16 critically examines how Islamic banking promotes economic growth and financial stability in selected countries in the Gulf region, while Chapter 17 highlights the importance of risk management. When it comes to investment, risk is inevitable, so risk management is crucial, and one of the best products for risk management is mutual funds. Chapter 18 gives a brief overview of the momentum effect and provides an explanation for this effect based on behavioural models. Chapter 19 analyses the exchange rate behaviour of four currencies such as the U.S. dollar, the British pound, the

Japanese yen, and the European euro against the Indian rupee and forecasts the exchange rates for twenty-four months ahead. Economists and investors always tend to forecast the future exchange rates so that they can rely on the predictions to derive a monetary value. The exchange rate between countries is influenced by a variety of factors such as inflation rate, growth prospects, political stability and economic policies. Most of these factors are difficult to predict in advance. Therefore, like most events, future exchange rates are uncertain. It is therefore difficult for participants in international markets to make decisions based on future exchange rates. Chapter 20 examines and explains the status of adoption of International Financial Reporting Standards (IFRS) in various countries around the world. This is helpful for those countries that have not yet adopted IFRS.

Investment decisions are critically related to the functioning of capital markets, and this book focuses precisely on that aspect. As securities trading has changed dramatically around the world, this book fills a gap in the existing financial literature and helps fund managers and individual investors make more accurate investment decisions. As such, this book is a valuable resource for researchers and students of finance, as well as for individual and institutional investors.

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