Testing the UK stock market overreaction

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The overreaction hypothesis asserts that investors tend to violate the Bayes' rule where they overreact to unanticipated and dramatic news or events in the financial world. This paper scrutinises the behaviour of the UK stock prices in relation to the financial crisis (credit crunch). An event study is carried out for the period of 2004-2009 for the portfolios of Winners and Losers, which provided evidence of high level of overreaction in the market which is consistent with the overreaction hypothesis.

Keywords: Overreaction Hypothesis, bubbles, market instability