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**Abstract**

This essay tests the differences in equity returns between Islamic and conventional firms using the Capital Asset Pricing Model (CAPM), Fama & French three factors model, and Fama & French four factors model. We us the Fama-Macbeth methodology to test the adequacy and explanatory power of the various model specifications. We find that the CAPM can better predict the factors for Islamic firms but not the conventional firms. There was a failure of Fama and French three factors and four factors model for Islamic, conventional and the total market. The estimated Beta is very close to the market for the conventional firms, but it is riskier for the Islamic firms. Moreover, we found out that the conventional firms’ results are similar to the total dataset of the market especially for the case of CAPM.

There is a broad literature that examines momentum, momentum strategies, and what drives the stock market. However, there is no literature that considers momentum in the Saudi Stock market. This essay analyses how would returns move in the Saudi stock market and whether momentum strategy works to be highly profitable or not. We use the Jegadeesh and Titman (1993) methodology of dividing the winners and losers within different periods of formation and holding. Moreover, we use the Hong and Stein (1999) methodology for the flow from generation momentum. We found a presence of a momentum effect on the Saudi stock market, but it is very low. Also, formatting and holding of three periods is the optimum choice to reach the highest momentum output. Momentum effect occurred when there is a higher level of risk tolerance. Lastly, 2006 is considered the highest momentum outcome on the sample (3.6%) where it followed by a market crash which occurred in 2005.

JEL classification: E03, G02, G11, G12

Key words: Empirical Asset Pricing, Islamic, conventional, Islamic finance, CAPM, F&F 3 factors model, F&F 4 factors model, Fama-Macbeth methodology, Cross section, equity return. Momentum, Saudi Arabian stock market, winners, losers.