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Impact of Stock Price Synchronicity on Financial Development: Evidence from Iran's Capital Market

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Abstract

The capital market is one of the leading institutional arrangements for allocating financial resources and investment opportunities. It significantly contributes to the development of corporate finances, thereby enhancing the productive capacity of the country. Thus, it is of great significance to the financial development of the economy. Insufficient transparency in a corporation's financial disclosures is linked to an increased potential for financial stagnation, where this lack of transparency serves as the main factor for a faster reaction in stock price synchronicity.

This empirical research aims to investigate how stock price synchronicity affects the financial development of firms that are traded on the capital market in Iran. Following Lai et al. (2021), we measure stock price synchronicity and use three indicators to gauge financial development: trading volume, market capitalization, and the financial development index. Our data set comprises 1,036 listed companies over the period 2014 to 2022.

The study utilizes a methodological approach that is both correlational and causal, employing regression and correlation analyses to test hypotheses. Results show that stock price synchronicity has a detrimental effect on the market capitalization-to-GDP ratio. Given the importance of Information efficiency of stock prices—which shows how much movement in a given stock is attributable to (or moves with) overall market moves as opposed to idiosyncratic factors specific to the company concerned —in fostering an informative trading environment and thus aiding financial development, corporate executives and policymakers should prioritize improving stock price synchronicity.

Keywords: finance development index; GDP; information efficiency of stock prices; market capitalization; trading