

ABSTRACT

The dynamics of the competition in a market economy is expected to function continuously to eliminate the profit differentials among different firms or industries in the long run. The persistence of profit rates differentials was estimated with an autoregressive model for a sample of firms listed in 9 sectors of the Main Board of Kuala Lumpur Stock Exchange (KLSE). We applied the methodology proposed by Im et al. (1997) to test for the persistence of profits in a panel data structure.

A few specifications were considered and the autoregressive model without a lagged difference term was the best model. This model indicates that the finance sector, industrial products sector, mining sector, plantation sector, properties sector, trading/services sector and hotels sector do not have persistent abnormal profits. In contrast, the construction sector and consumer products sector have persistent abnormal profits.

The time period required for a 10% abnormal profit to be reduced to 1% is estimated to be in the range of 1 to 4 years. On average, the excess profit for 80% of the companies included in the analysis tends to zero in the long run. The properties sector has the highest percentage of firms with positive long-run excess profits.