

**PERSISTENCE OF PROFITS:
INTRA- AND INTER-SECTOR
COMPARISONS**

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**A Research Paper submitted to the
Faculty of Economics and Administration
University of Malaya
Kuala Lumpur
in partial fulfilment of the requirements
for the degree of Master of Economics
(by Coursework)**

SEPTEMBER 2001

Perpustakaan Universiti Malaya



A511374748

ACKNOWLEDGEMENTS

First, I would like to express my deepest gratitude to my supervisor, Associate Professor Dr. Goh Kim Leng, for his supervision, guidance and patience throughout the progress of this study.

My deepest appreciation to my parents, Mr. Liew Thean Sang and Mdm. Chan Yuet Hoh, for their care and support ever since I inhaled my first breath.

Finally, I would like to thank those who have been supportive of me throughout my journey of life.

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.

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