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Stock Market Reaction to Corporate Tax Rate Reduction in India: An Event Study Approach

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Abstract: This study explores the response of the Indian equity market to the announcement of a corporate tax rate reduction, with a focus on evaluating the semi-strong form of the Efficient Market Hypothesis (EMH). An event study approach is employed to measure abnormal returns, average abnormal returns, and cumulative average abnormal returns around the announcement period. The analysis is conducted over a 60-day event window, covering 29 trading days before and 30 trading days after the policy announcement, using stock price data of firms included in the Nifty 50 index. The empirical results reveal that the market reaction to the tax reform was weak and short-lived, with abnormal returns failing to attain statistical significance. These findings indicate that publicly available fiscal policy information was not fully or immediately reflected in stock prices, suggesting deviations from semi-strong market efficiency in the Indian stock market.

Keywords: Efficient Market Hypothesis, Event Study, Abnormal Returns, Average Abnormal Returns, Cumulative Average Abnormal Returns

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