

of the paper show that average technical efficiency scores of Islamic banks, conventional state-owned banks and private banks are 0.9569 0.8592 and 0.9419 respectively. This means that Islamic banks experience lowest inefficiency of 4.42 percent followed by conventional private commercial banks (5.81%) and state-owned banks (14.08%). It is also found that state-owned banks and Islamic banks face technical inefficiency due mainly to scale inefficiency while technical inefficiency of conventional private commercial banks is attributed mainly to pure technical inefficiency.

## **Session 2.2: Islamic Capital Market II**

**Chair: Prof. Dr. Obiyathulla Ismath Bacha**

### **1. Determinants of Herd Behaviors: Evidence from Pakistani Stock Exchanges**

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Farman Ullah (Riphah International University); Maryam Mirzaei (Multimedia University)

This study investigates over confidence, self-attribution, and illusion of control and information uncertainties as determinants of herding behaviors. More than 200 questionnaires were distributed among stock investors to collect primary data for regression analysis. Regression analysis was used in SPSS to find out the relationship between herding and behavioral biases. According to the findings of study there is significantly positive relationship between herding behaviors of investors and behavioral biases. Due to lack of understanding of the complex situations in the stock market and also because of behavioral biases some investors regularly follow other in order to gain high returns. The study will be helpful for investors to analyze a particular situation before going for investment decision.

### **2. Diversification in Conventional and Islamic Stock Indices: Evidence from Multivariate-GARCH Analysis**

Buerhan Saiti (International Islamic University Malaysia)

Nazrul Hazizi Noordin (International Islamic University Malaysia)

**Purpose** - The main purpose of this study is to quantify the extent to which the Malaysia-based equity investors can benefit from diversifying their portfolio into the Southeast Asian market and the top 10 world's largest equity markets (China, Japan, Hong Kong, India, UK, US, Canada, France, Germany and Switzerland). **Design/methodology/approach**- The multivariate GARCH-dynamic conditional correlation is deployed to estimate the time-varying linkages of the selected Asian and international stock index returns with the Malaysian stock index returns, covering approximately 8 years daily starting from 29 June 2007 to 30 June 2016. **Findings** - At the regional level, the results indicate that the Malaysia-based equity investors would benefit most if they include the Japanese stock indices in their portfolio. Meanwhile, at the international level, the results imply that the US stock indices provide the most diversification benefit for the Malaysia-based equity investors. **Originality/Value** - The findings of this paper may have several significant implications for the Malaysia-based equity investors and fund managers who seek for the understanding of return correlations between the Malaysian stock index and the world's largest stock market indices in order to gain higher risk-adjusted returns through portfolio diversification. With regard to policy implications, the findings on market shocks and the extent of the interdependence of the Malaysian market with cross-border markets may provide some useful insights in formulating effective macroeconomic stabilization policies in the efforts of preventing contagion effect from deteriorating the domestic economy.