

Irrationality in the Stock Market

Mere Knowing Won't Do

For the last three years or so, monitoring agencies around the world have been relentlessly updating findings on the depletion of ozone layer over Antarctica. The latest World Meteorological Organisation (WMO) revelation is that current trend of depletion of the ozone layer can get worse. The depletion rate is likely to increase because the chemicals eating away earth's protective gaseous halo will be on the rise in any case for some five years into the next century. There is, however, a gleam of hope. A thaw is expected in the process of ozone destruction after the said time-frame because the destructive chemicals are likely to be in the air at a much reduced rate. This is only a projection and a breathing time for a decaying ozone layer will come true only if the governments of the world remain true to their commitments to the 1987 Montreal Protocol and its amendments. It was agreed there that governments would ensure the gradual phasing out of the chemicals — that destroy stratospheric ozone — from their respective countries. Only if this protocol is observed as a top priority to the hilt then we, according to the prediction of the WMO experts, would not hear of ozone-less patches in the sky after the year 2070.

One of the natural inferences of the process of ozone depletion is the trapping of heat on earth's surface and its adverse impact on the ecosystem in the global context. Environmentalists have already sounded warning that Bangladesh along with other low and sea-girt countries will be severely affected due to global warming. A huge portion of its coastal areas run the risk of being devoured by the rising sea level.

Effects of global warming no longer need to be supported by facts and figures for reference. There are so many tell-tale signs in the diurnal aspects of nature. It is almost the second week of November and yet there is hardly any sign of winter. Not only this, the recent report on the top-dying disease of the Sundarbans also held global warming among others, as one of the reasons behind the alarming phenomenon of forest-blighting.

These are first and sure signs of the more serious problems we are destined to run into. The cause of concern is, are we alive to it officially? This is not a typically Bangladeshi problem. Some other countries, for example, the Maldives are even worse exposed to this problem. So it would be a good idea, if the fear of nature's retaliation at man's unscrupulous abuse of her, is met collectively. Mere information exchange in the SAARC would not do, it seems.

Low on Priority

Of the many elementary facilities missing in our government hospitals, one that appears most disconcerting to us is the absence of full-fledged burn units in them. In fact, to our utter disbelief, even the lone arrangement for the treatment of burns in the country which the DMCH has the unique distinction of having within its premises is an apology for it whereas it should have been the cynosure of budgetary eyes. It is poorly manned, ill-equipped in the very basics and thoroughly incapable of coping with the patient-load.

For some inexplicable reasons, this DMCH ward has been somewhat grudgingly accorded, since its inception a decade or so ago, an appendage-like status much the same way that the so-called 'non-tropical' maladies are assigned to in these parts of the globe. Burns are accidents that don't happen as a rule, so why bother so much for them — seems to be the strange anti-emergency mental fixation we are stuck with.

While the world is advancing with new methods of burn treatment — our neighbouring country having already successfully experimented with potato skin as grafting or adhesive material — we have only gone downhill in this particular area. Far from trying a hand in experimentation, we are not even toying with the idea of a full-fledged burn hospital which could have actually set the ball rolling for some active research in this field. It is a pity that even the sole burn unit in the country has not yet received that minimally expected degree of attention from the ministry concerned which would have helped it to expand with some more beds.

This neglected aspect of medical treatment in the country needs lifting from the morass having regard to the fact that burn injuries have been on the rise, thanks to fire incidents in the highly inflammable shanties and markets, let alone a plenty of variegated mishaps.

Andhra Tragedy

The cyclonic storm that deluged parts of Andhra Pradesh on Wednesday, with half a million people having been marooned, has been the worst such tragedy to befall this region for some years. We were battered by a cyclone five years ago. Yet, for Andhra itself, it came as a double-tragedy lashing at that Indian state on the south-eastern coast in the wake of a tidal surge that had occurred only three weeks ago.

There was hardly any sloughing off of the effects of the earlier storm before the Wednesday's catastrophe hit Andhra hard bringing a death toll of 2000 in addition to the 350 lives lost through the previous cyclone.

What lends poignance to it all is the turning of a rice-growing region east of Godavari into a 'burial ground'. Being ourselves of the wizened victims of cyclonic disasters we can say that nothing helps mitigate the sufferings of people more than a combination of anti-epidemic measures and agricultural rehabilitation programmes well in place.

We have an empathetic realisation of the ordeal the Andhra Pradesh cyclone victims are going through now. Our sympathies lie with them. We wish them early recovery.

"Irrational optimism and pessimism rule the stock market..." were the words written by John Maynard Keynes (1883-1945) in his magnum opus, 'The General Theory of Employment, Interest and Money' in 1936 which changed the whole perspective of macro-economic theory and dominated the economic thinking and policies of the western world from late 1930s to late 1960s. He was not only a Fellow of King's College of Cambridge University, editor of The Economic Journal for 28 years, advisor to the Department of Treasury of the British Government and many private corporations, but also a successful player in the London Stock Market and a patron of a distinguished Theatre Group. Above all, he was the architect of the new international financial order in the post-Second World War period. Apart from being a leading academic thinker of his time, he had first-hand knowledge of how the government administration, private businesses and stock markets work. His views and insights on how securities market works are well worth remembering.

However, it is in his General Theory (in short) that he proposed three motives for holding money as against only one that the classical economists emphasised: The Transactions Motive (i.e. the demand for money to meet the weekly or monthly payments of a household for consumption and other goods and services etc. which is the one that the classicists worked with). The Precautionary Motive (i.e. the demand for money to meet unforeseen contingencies like medical and hospital payments etc.) and the Speculative Motive (i.e. the demand for money arising from uncertainties about the real value of other assets like stocks and bonds etc). It is this last one and its analytical power that constituted one of the most important contributions of Keynes in monetary macroeconomics. According to this proposition, people shift their cash or savings from short-term assets to stocks and bonds when their real expected yields are higher and risks appear to be acceptable.

What exactly is happening in Dhaka or Chittagong Stock Exchanges? What factors are responsible for such an explosive demand for shares? What should be done?

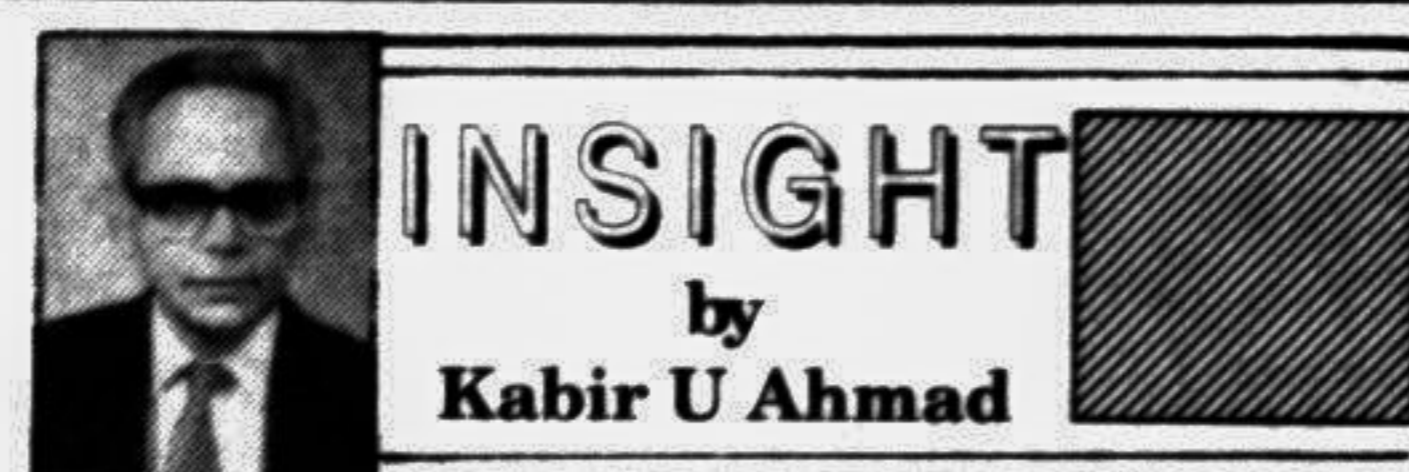
able. But this is not always the case. People do take unacceptable risks and go bankrupt in the process which is how irrationality comes in.

When one reads in the newspapers about huge amounts of private wealth being transferred from cash deposits and savings accounts in banks, as well as from sale proceeds of gold and other assets like small shops and land etc to buying shares in the stock markets in Bangladesh without much knowledge or understanding of the inherent risks, one realises how valid Keynes' description of the behaviours of players in the stock market is even after 60 years of his writing. The questions that naturally come to mind are the following: What exactly is happening in Dhaka or Chittagong Stock Exchanges? What factors are responsible for such an explosive demand for shares? What should be done?

What Is Happening in the Stock Market?

Over the last four months, there has been an explosive growth of demand for shares and debentures both in Dhaka and Chittagong Stock Exchanges raising the price level to new heights. The pattern of such increase can be seen over the last few weeks shown in the table. The third row of the table shows that the All Share Price Index of Dhaka Stock Exchange has gone up from 1193.8 in the week of October 12-18 to 3415.5 in the week of November 2-7, 1996. The rise only in this short period came to 186.1 per cent. Such an increase in the All Share Price Index as well as in the Number of Shares and Debentures transacted (shown in the first row of the table) has led to an increase in the market capitalisation during the same period from Tk. 147 billion to Tk. 241.61 billion (or \$ 5.68 billion).

This is simply an unprecedented rise of prices, volume of shares and debentures, and market capitalisation. This has happened inspite of the Security and Exchange Commis-



INSIGHT
by
Kabir U Ahmad

	WEEKS			
	Oct. 12-18	Oct 19-24	Oct 26-31	Nov. 2-7
Total No. of Shares and debentures (Volume)	2.95 m	4.614 m	5.452 m	3.777 m
Total value of shares	Tk. 895.95 m	Tk 1518.3 m	Tk 2273 m	Tk 2091.3 m
DSE All share price index	1193.8	2193.8	2985.3	3415.5
Market capitalisation	Tk 147 b	Tk 155.2 b	Tk 211.2 b	Tk 241.61 b
	(83 45 b)	(83 69 b)	(84 97 b)	(85 69 b)

(DSE stands for Dhaka Stock Exchange, m-million b-billion. Data collected from the published reports in The Financial Express. The dollar conversion of Taka has been made at the exchange rate of Tk. 42.5 :-1). Market capitalisation means the product of total number of shares and the weekly average price index. Note that one finds some discrepancy in the figures of market capitalisation quoted in the table and the direct multiplication of the All Share Price Index and the Total Number of Shares and Debentures given in the first row.)

sion's (SEC) imposition of 10 per cent Circuit Breaker about three weeks ago and further tightening of it to only five per cent last Tuesday. November 4th. These measures have had some effects on the share prices as could be seen in their decline for a day or two immediately following their dates of announcements. Last Wednesday's All Share Price Index fell by about 10 per cent but the average of the week's index was still higher than that of the previous week. Further, in recent weeks Bangladesh Bank has adopted two measures to restrain depositors from withdrawing their funds, or to borrow from the banking system for investing in the securities markets. First of all, Bangladesh Bank has raised the bank rate marginally from 6.25 per cent to 6.5 per cent in an attempt to attract funds from the market or to re-

strain the depositors from withdrawing from the banking system. Secondly, it has required the commercial banks not to give loans to their clients against shares and debentures used as collateral.

When one reads in the newspapers that huge amounts of deposits and savings have been withdrawn from banks recently leaving the banking system in a state of 'liquidity crisis' and, leaving the banking system in a state of 'liquidity crisis' and, in addition, there are still long lines in front of all commercial banks to withdraw their deposits and savings from banks, one realises that these measures haven't had much effect on the depositors. On the contrary, these measures have made the costs of funds expensive to the normal traders and industrialists.

What Factors Are Responsible for This Surge?

There are four important factors responsible for this surge of stock prices: (a) expectation, (b) reduction of capital gains taxes in this year's budget, (c) phenomenal increase in demand for stock and debentures backed up by cash liquidity, and (d) shortage of supply. It is worth explaining these issues systematically.

(a) & (b). Two types of expectations seem to have aroused interest among the buyers. First comes the political stability after the new government has come into power. People are expecting that this government is going to be stable for about five years. In addition, this government has been showing a change of its ideology from holding on to a large public sector industrial ownership to free market private economy.

In the second place, capital gains tax was eliminated in the previous government's budget except on bonus shares. In the present government's first budget, this bonus share also has been expected from capital gains tax. These have made capital gains made in the stock market net of all taxes. This has encouraged many small investors to play in the market. This expectation has been fuelled further when small investors have tasted the first and second rounds of profits and realised that there is a shortage of shares and debentures. As many buyers are bidding for the small number of shares, prices are going up and they may keep going up for quite some time until supply of shares increase substantially.

(c) The demand for stocks has increased enormously as the items in the table shows. There are two questions that need to be asked: 'Where has the money come from?' Has there been any inside manipulation to fan up prices?

Money has come from a major shift of savings in the banks, private households' savings, sale of assets like gold etc.

which have been mentioned above, to the stock market. The next big money has come, as reports have it, from smugglers and black marketers who have got an opportunity to have their money white through stock market. There are various other groups of people who have cash at hand. Altogether about \$5.5 billion are chasing about 3.7 million securities.

As for inside manipulations, published reports in the news papers (The Financial Express, November 5, and 6, 1996) indicate that there have been such manipulations which have pushed the prices to the advantage of some major players in the market.

There is no doubt that supply is utterly short compared to the newly created demand. The new IPOs seem to be grabbed again by the influential players in the market.

What Should Be Done?

All these have appropriate remedies. Supply can be increased by offloading large number government shares in various foreign and domestic corporations. But it should be made sure that these shares reach the thousands of small buyers in the market and not grabbed by the bigger ones and, thereby, create further concentration of shares in few hands. This is where both SEC and the government should intervene to ensure fair play in the market by strict surveillance, monitoring and appropriate disclosures on accounts. The chief of the Stock Exchange should not be a broker without any link with brokerage activities. The executive body of stock markets should be made autonomous with powers to implement the rules and regulations. New corporations in every sector should be encouraged to float new ventures with IPOs in the market.

Finally, a word for the buyers would be appropriate. Nothing grows in this earth up to heaven, rather everything that grows fast also comes down fast. Rational behaviour in stock market requires that everyone should understand carefully the risk involved in buying and selling. Otherwise they will be wiped out overnight.

Turbulence Tearing through Central Africa

by A S M Nurunnabi

THE Central Lakes region of Central Africa is in turmoil, resulting from a conflagration which has been affecting tens of millions of people over a huge area. Zaire, bordering on all the other countries, has long been a maligned influence, due to the regional conflict between Hutus and Tutsis. Rwanda and eastern Zaire are embroiled in a long-drawn out agony of slaughter by ruling armies and roving rebel militaries that has created millions of hungry refugees.

Genocide consumed Rwanda in 1994. How, in another form, it threatens Zaire. At the bottom of it is the age-long enmity between Hutus and Tutsis. The relationship between the two tribes goes deep into history. Hutus tell of centuries of enslavement by Tutsis. Tutsis say that the ethnic divide was invented by colonial rulers.

The Tutsis were cattle-breeders who came south from the rift valley in a long migration that began 400 years ago. They settled among local people, most of whom were Hutus in the Great Lakes region and formed two states, now Rwanda and Burundi. Other Tutsis settled in what are now eastern Zaire and south-west Uganda.

The Tutsis formed a symbolic bond with their hosts. Adopting their language, beliefs and customs, they became part of the same culture, sometimes the two intermarried. But politically and socially, the Tutsis, about 15 per cent of the population in Rwanda and Burundi, kept the upper hand. Hutus and Tutsis lived together for centuries on the same hills, even in same communities. To both, the land is theirs; both feel they have nowhere else to go. Rwanda was hierarchical, the Tutsis ruled the local Hutus as serfs. The colonial authorities allowed only Tutsis to attain higher positions of authority.

In the run-up to independence in 1962, the spectre of majority rule began to threaten Tutsis supremacy. Rwanda's Hutus rose up before independence, and in 1959 murdered thousands of Tutsis, while hundreds of thousands were driven or fled into nearby countries.

In Rwanda, many Hutus found an attempt to re-establish Tutsis domination with the



Zairians looting shops (left) and Rwandans fleeing city (right) as Zairian and Rwandan troops exchange fire.

help of Tutsis exiles in Uganda led by the Rwandese Patriotic Front (RPF). In 1994, after four years of stalemate civil war, extremist groups organised mass slaughter of all Tutsis still living in Rwanda plus any Hutus who supported a deal with the RPF. Some 800,000 were killed. But in the end the RPF triumphed and two million Hutus fled to Zaire and Tanzania.

Hutu refugees from Rwanda lived in vast refugee camps in Zaire. With them were the remains of the old Rwandan army which turned itself into a guerrilla force striking back across the border in Rwanda. The soldiers and other militias were helped by the Zairian government, which never attempted to disarm them or remove them from the camps. This created a new conflict in eastern Zaire, where local politicians used the Rwandan rivalry between the original inhabitants of the region and the Tutsis and Hutus who came later, but have lived there for several hundred years.

In the North Kivu area of Zaire, Hutus and Tutsis are collectively known as Banyarwanda. The Zairian government treated all Banyarwandas as foreigners refusing to grant them citizenship and playing them off against local citizens. With the arrival in North Kivu of more one million Rwandan Hutus, the balance of power shifted and the wars got even nastier. The Zairian government encouraged the local people to attack the Banyarwanda. In South Kivu, a group of Tutsis known as Banyamulenge have been settled in the Mungue mountains for generations. Fighting broke out between them and the Zairian army in September last. Compared with the Tutsis and Hutus in North Kivu, the Banyamulenge, in their mountain strongholds, could fight back. The Zairian government was bent on expelling both these groups of tribes in Zaire. But they did not seem to be much successful in this endeavour, for looming over the whole region is the instability of the country caused in a large measure by a weak government on account of the absence of the Zairian President, gone abroad for his cancer treatment. The region's tragedies could be substituted into an even larger disaster: break-up of Zaire.

The battles raging in this area, rooted in ethnic hatred, greed, fear and rampant insecurity, turned a stretch of eastern Zaire along the western rim of Africa's great Rift Valley into a vast human disaster zone. Set on opposite sides of the border, Rwandan and Zairian troops bombarded each other with mortar. Although Rwanda insists that it is not at war with Zaire, the Tutsis-dominated army has continued to fire on Zairian positions whenever strategic interests required to.

As a result, hundreds of thousands of Rwandan Hutu refugees ran helter skelter for safety. Influx of more than 2000,000 refugees at the Mugunga camp at the north end of Lake Kivu has turned it into the world's largest refugee camp, with sprawling tents covering four square miles.

France, the United States and the Organisation of African Unity (OAU) called for talks to resolve the conflict which has threatened the lives of more than half a million refugees who fled to Zaire to escape ethnic strife in Rwanda and Burundi. Meanwhile Zaire's transitional Parliament voted to sever diplomatic relations with Rwanda, Burundi, and Uganda in response to the alleged aggression in north Kivu and south Kivu provinces of Zaire. The conflict in eastern Zaire assumed greater international dimensions with the Zaire government adding Uganda to the list of its enemies. Zaire was reportedly firm in its policy to start returning progressively and by force all the Rwandan and Burundian refugees on its territory.

The situation reportedly deteriorated when lately ethnic Tutsi rebels closed in on the Zairian-held city of Goma and aid agencies were forced to halt food distribution in the area following alleged looting by Zairian troops. Against this backdrop and in response to



Zairians looting shops (left) and Rwandans fleeing city (right) as Zairian and Rwandan troops exchange fire.

appeal by the UN and some western powers. African leaders of Tanzania, Ethiopia, Uganda, Rwanda, Zambia, Eritrea and Cameroon gathered in Nairobi on November 5 for their first summit on the war in eastern Zaire where more than a million refugees are at risk. Hopes for progress at the Nairobi talks were, however, dimmed by Zaire's boycott.

The looming danger is that Rwanda and eastern Zaire seem to be poised for a long drawn out agony of slaughter by ruling armies and roving rebel militias.

These people have nothing to offer the world but their humanity. Yet the question is, if anything is possible, can the outside world just sit and watch that humanity dissolve in bloodshed and chaos?

OPINION

Too Many Consumers Chasing Too Few Bazaars

Alif Zabr

Mini kaacha bazaars (not shopping centres), selling meat, beef and vegetables are thriving, unauthorised, on the footpaths and main thoroughfares of the big cities. Hoards of hawkers and peddlers are forcing the legitimate pedestrians (when the pedestrians are law-abiding? ... when not jaywalking!) to walk on the streets (jaywalking!) jammed with overflowing traffic, in the same manner as the political processions take to the street, and then block it for the *manchamientos*. There are double standards when in power and when in the opposition. Strange but true: there are no earmarked places for holding public meetings.

It is the new culture of defiance and indiscipline, thanks to our lust for politics of disruption and discord. Many of the vehicles are unauthorised (improper or no documents), and more of the drivers have no right to drive. The hawkers cannot be provided with enough space in the costly city plots.

It is easy to find such non-formal trading spots in such crowded localities as the Mottijheel Commercial Area, and on the Mirpur Road between Dhanmandi and Mohammadpur, and many other congested localities in Dhaka city. The cause is not a mystery: too many consumers are chasing too few bazaars in the burgeoning cities. Theoretically, the supply tends to rise to meet the demand, regardless of the quality of the service; encouraging spurious products, bribery and corruption.

The municipal markets in metropolitan Dhaka were established many decades earlier, planned to cater to a population ten times less than at present. Many of the scheduled shopping centres and markets could not come up in the residential areas, as officially allocated in the approved blueprints. Due to misuse of power and influence by the top and affluent minority of the society, this section is getting more and more powerful (a part of capitalism), as democratic trends rotate the have-nots in and out of power.

The jumping of the queue is common. Left to the market forces, the development of the shopping facilities start at the top, where there is more surplus money to spend for non-essential items. The housing schemes in the private sector are following a similar idea, first cater for those who have the surplus funds. This is why the public sector has to play the role of facilitator the middle-class and the fixed-income groups, and try to push down the poverty-line. Who are the patrons of the market? The non-formal sector is being neglected by the people's representatives. Different groups have different motivations: the residents demand the civic rights and amenities; the 'poor' hawkers have to earn a living; and the law enforcement personnel look the other way while some pockets are filled. It is the environment of the times: living under pressure, with rising costs and declining value of the Taka, coupled with sporadic formal development exercises by the politically unstable leadership. Routine and development mismatch.

Rapid urban migration is a persistent problem in the developing countries. In contrast, the suburban living in the developed countries is a dispersal movement. This reverse flow, away from the city's madding crowd, is due to higher standard of living, and better transport, communication, and other services at greater distances from the city centres.

In Bangladesh the problems of the big cities are similar (the population of Mexico City is 18m). The civic services tend to break down, as the residents of Dhaka have ample evidence. The city planners and the administration are in a fix, and the politicians in power are worried about their popularity. The UN agencies are willing to assist, but at the local level, the time lag is long and lingering between resolve and action. That is why we have long speeches and short memories. Maybe the same fate awaits this commentary!

PM's entourage

Sir, Prime Minister Sheikh Hasina has already completed her two visits to USA and China. A big battalion was there with her during both the visits. But the tour to the USA broke the previous records as 77 important and unimportant persons travelled with her. Some VIPs may play a vital role during her visit but some inclusions cannot be justified.

Prime Minister should remember that it's not a pleasure trip. Who will bear the additional expenditure? So my earnest request to the Prime Minister is for not taking unimportant persons while going to a foreign country. Otherwise her popular image will be tarnished.

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Fishing net of Hojja

Sir, Once, in the time of famous Kaliph Harun-ur Rashid, the guardians of Baghdad were looking for a suitable person for appointing the Kazi of the city. They tried hard to find a man of principle, honesty and other virtues to ensure justice and peace. One day they saw Nasrudin Hojja was walking along the river bank covering his body with a fishing net. In answer to their query Hojja said that though he was quite sound financially at that time yet he could not forget even for a second that he used to earn his livelihood by fishing in the past. Hearing such honest confession about Hojja's past life, the group selected him to appoint as the Kazi without any hesitation.

But after getting the appointment Hojja got rid of the fishing net without wasting any time. The bewildered selectors

asked him to explain the reason for such an act which contradicted his early comment. In reply the Hojja flatly said that necessity of that net was over.

Do you find any resemblance between the story above and the activities of one particular leader of ours before and after June 12 general elections?

Seven-year-old fighter
Sir, An appointment notice which was published on 21st August in The Daily Star makes me surprised. In that notice applications were invited for the vacant post 'Personal Assistant to the Honourable Speaker'. In that notice the maximum age for the candidate was 32. Is this possible? Just think. We have passed 25 years of independence. So a 32 year-old freedom fighter must have been 7 years

old in 1972. I have not seen the war. But I do believe that at the age of seven a person is too young to go for fighting. So I will request the authority to go through a notice before sending it to press, so that it bears a good meaning.

Repair the wall
Sir, The inhabitants living behind the BAF officers' mess at Shahabagh would like to request the authority concerned to save our lives. We're in a life risk. A part of the boundary wall (near Sultana Clinic) has been badly damaged recently. Therefore, we hope that the authority concerned would take steps to repair the damaged part as early as possible.