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What Drives Stock Prices?
The Present Value Model Revisited in a Comparison of Developed
and Emerging Markets

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Abstract

Using a dynamic version of the present value model and a range of developed and Asian emerging markets, this paper considers what stock market prices 'should have been', given expectations on index cash dividends and on, more broadly defined, index earnings, and compares these fundamental prices with actual prices. Revealed deviations from fundamental value are investigated by considering types of investor behaviour which might drive such departures and whether they are influenced by spillover effects from other markets.

Key words: stock prices; cash flows; present value; bubbles; spillovers.

JEL Classification Codes: G12, R31, G18.