



Reexamining Gibrat's Law for Equity Funds of Taiwan Using SPSM Tests

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ABSTRACT

This study applies the Sequential Panel Selection Method (SPSM) with panel KSS unit root tests (Kapetanios et al., 2003) to investigate whether the growth rate of fund net assets is independent of their size, as postulated by Gibrat's (1931) Law of proportionate effects. Time-series data for the net assets of 121 equity funds in Taiwan for quarterly data from March 2005 to December 2015 are used. The empirical results from several panel-based unit root tests indicate that the net assets of all equity funds in Taiwan studied here are the most stationary, implying that Gibrat's Law does not hold in the 121 equity funds of Taiwan; however, the SPSM with panel KSS unit root tests unequivocally indicate that Gibrat's Law is valid for 13 of these 121 equity funds in Taiwan here.

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Keywords: Gibrat's law, sequential panel selection method, panel-based unit root tests, fund net assets, equity fund of Taiwan

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