

## Do Stock Market P/E Ratios Go through Structural Changes?

### **Abstract**

Despite the traditional standpoint that the market P/E ratio tends to revert to its historical mean over time, Carlson, Pelz, and Wohar (2002) argue that the market P/E ratio significantly deviates from its historical mean and moves upward at a structural break point in time. Since there are few studies that closely examine the mean reverting trend of the market P/E ratio, this study re-investigates structural changes in the market P/E ratio and shows how the stock market recognizes them. The authors find that the stock market perceives structural changes in the market P/E ratio over the long run and reflects them to future stock market returns in each sub-period between structural break points. The results provide a new insight for the stock market.

JEL: G10, G17

Keywords: P/E Ratio, Structural Break Point, Mean Reversion, Stochastic Behavior