Short-selling ban and cross-sectoral contagion: Evidence from the UK

Mohamed, A. ¹, ², Joosta, A. ², Goddard, J. ³
¹ Department of Finance, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Kuala Lumpur, Malaysia
² Graduate Studies (Research), United Kingdom
³ Bangor Business School, United Kingdom

Abstract

The UK's Financial Services Authority introduced a ban on the short-selling of specified financial sector stocks in September 2008. The regulator's stated objectives were to protect market quality, stabilise the market for financial-sector stocks, and prevent cross-sectoral contagion. We analyse the price, market quality and contagion effects following the imposition of the short-selling ban, and its removal in January 2009. We report evidence consistent with a short-lived overpricing (underpricing) effect immediately after the ban was imposed (lifted). There is evidence of deterioration in market quality while the ban was in force. There is evidence of cross-sectoral contagion from the financial sector to the telecommunications sector immediately before the imposition of the ban, but there is no contagion for seven other non-financial sectors. There is no evidence of contagion while the ban was in force. In terms of preventing cross-sectoral contagion, the ban may be seen as a successful governance mechanism in the regulator's toolbox. © 2015 Macmillan Publishers Ltd

Author keywords

abnormal returns, contagion, market quality, regulation, short-selling ban

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