

Banning the Bear: Short-Selling Limits and Prices in Taiwan

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Abstract: Since the 2008 global financial crisis, the Financial Supervisory Commission has implemented four short selling restrictions. This study uses the four short selling restrictions to explore the impact of short-sale restrictions on stock market return, liquidity and price volatility. Overall, the empirical results support a significant increase in trading volume and turnover ratio after the lifting of short-selling restrictions. This result means that the lifting of short-selling restrictions helps improve stock market liquidity. Additionally, the empirical results of this study also found that the market volatility of Taiwan stocks dropped significantly after the lifting of short-selling restrictions.

Keywords: Volatility, Liquidity, Short Selling Restriction, Spread Ratio, Turnover Rate

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