

Project Title: The Impact of Options Introduction on the Price and Volatility of Underlying Securities: A Study of American Depositary Receipts

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Project summary: We examine 125 option introductions on newly listed options for ADRs over the period of 1982 to 2006. We test the short sales constraint in an environment potentially less susceptible to short sales constraints for many of the firms. We find that there is a negative abnormal stock return associated with the options introduction. We also find that the trading volume does go down relative to a peer group. However, it quickly rebounds to pre-optioned levels. Factors driving option listing on the options exchanges are comparable to those in US domestic securities with the addition of the change in relative short interest as well as an industry specific effect.