

Moritz Wiebke

Short Sale Bans and their Impact on the Microstructure of Equity Markets

European Evidence

Master's Thesis

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The Impact of Short Sale Bans on the Microstructure of Equity Markets: European Evidence

verfasst von / submitted by

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Abstract

I investigate the effects of short sale bans on the market microstructure of European equity markets. In Spring 2020, Austria, Belgium, France, Greece, Italy, and Spain imposed short sale bans for a period of two months as a response to increasingly volatile financial markets driven by the Covid-19 crisis. I use daily stock data from 28 European countries to assess the impact of these bans on market liquidity, price efficiency, and stock prices. The analysis of stock liquidity measured by the percentage bid-ask spread, the Amihud illiquidity ratio, and the dollar volume points to a severe degradation in stock liquidity of large firms compared to the control group. I apply a matching procedure to verify the robustness of these results. Reverse effects take place once the ban is lifted again. Furthermore, my empirical evidence suggests that short sale bans reduce the price efficiency as proxied by a price delay measure. However, this effect is not stronger during market downturns. Moreover, it seems that the bans do not affect the speed of stock prices adjusting to firm-specific information and, contrary to the predictions made by Miller (1977), short sale bans appear to have no effect on stock prices. Overall, the results of my study using data from the Covid-19 crisis in 2020 mostly confirm the findings of previous studies that have examined the impact of short sale bans on the market microstructure.