

# Price Efficiency and Short Selling

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## Abstract

This article presents a study of how stock price efficiency and return distributions are affected by short-sale constraints. The study is based on a global dataset, from 2005 to 2008, that includes more than 12,600 stocks from 26 countries. We present two main findings. First, lending supply has a significant impact on efficiency. Stocks with higher short-sale constraints, measured as low lending supply, have lower price efficiency. Second, relaxing short-sales constraints is not associated with an increase in either price instability or the occurrence of extreme negative returns.

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