Impact of financial market liberalization on PE ratio : a study on China A-share market

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Abstract This paper assesses the impact of the China's recent financial market reforms on its A-shares Price-Earnings (PE) ratio. China has been gradually opening up its financial market since the 2000's, allowing Chinese and foreign investors to participate and interact domestically and overseas more freely. Qualified Domestic Institutional Investor (QDII), Qualified Foreign Institutional Investor (QFII), Renminbi Qualified Foreign Institutional Investor (RQFII), Shanghai- Hong Kong and Shenzhen-Hong Kong Stock Connect were selected as the financial market liberalization events of our interests. Using a panel dataset drawn from the Shanghai (SSE) and Shenzhen (SZSE) stock exchange, we find that PE ratio is negatively associated with QDII, while QFII, RQFII and Stock-Connect have a positive impact on PE ratio. The finding also provides evidence on capital flows as the transmission channel in which A-shares PE ratio is affected by the financial market reforms.

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