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The impact of option listing on the price volatility and trading volume of underlying OTC stocks

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Abstract

This paper examines the impact of an initial option listing on the price volatility and trading volume of underlying OTC stocks. The sample is divided by market value to determine whether larger firms are impacted differently by option listing than smaller firms. We find relative trading volume increases significantly, with the small and medium market value firms showing the largest gain. However, the tests show no evidence of changes in price volatility following option listing. No significant changes were found in either the firms' betas or variance following option initiation. The results provide further evidence that option listing does not destabilize the market for the underlying stock.



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