Option introduction and insider trading in the NASDAQ/NMS equity market

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Abstract

This paper investigates and supports the hypothesis that insiders have an incentive to shift their informed trading activities when options initially are listed for a firm. Firm size is found to be related to the level of insider trading activity. There is a significant decrease in insider equity-market volume for the smallest third of firms, a significant increase in insider-equity market volume for the middle third of firms, and a significant decrease in insider equity-market volume for the largest third of firms. This supports the hypothesis of a difference in the degree of impact on equity volume upon option introduction based upon firm size. This research provides additional evidence of informed trading activities when option introduction, insider trading, and firm size are considered simultaneously.

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