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Research Article

Do small traders contribute to price discovery? Evidence from the Hong Kong Hang Seng Index markets

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PDF

Abstract

Using one-contract-size trades in the Mini Hang Seng Index futures to proxy the activities of small traders, this study empirically investigates the information contribution of small futures traders to price discovery on the Hang Seng Index (HSI) markets. Estimated with the models of Gonzalo, J., and Granger, C. W. J. (**1995**) and Hasbrouck, J. (**1995**), the results show that small traders contribute about 16.8% to price discovery, a disproportionately high share considering their relatively low trading volume. The results also indicate that the Hang Seng Index futures (HSIF) market still has the largest information share (about 71.0%), whereas the HSI spot market has a 12.2% share. Our results suggest that small traders are not uninformed in the HSIF markets, and play an important role in price discovery. © 2009 Wiley Periodicals, Inc. Jrl Fut Mark 30:156–174, 2010

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