

Impact of warrant introductions on the behaviour of underlying stocks: Australian evidence

Michael Aitken, Reuben Segara

First published: 24 November 2004

<https://doi.org/10.1111/j.1467-629x.2004.00126.x>

Citations: 14

The authors would like to acknowledge the research support of the Australian Stock Exchange (ASX) and the Securities Industry Research Centre of Asia-Pacific (SIRCA) for the use of data in this research. They would also like to thank participants at a presentation held by the Research and Development Division of the ASX for useful comments and suggestions. Thanks to all.

Abstract

The present study examines the impact of first-time introduction of warrants by third party issuers on the trading behaviour of a sample of underlying stocks listed on the Australian Stock Exchange. We investigate the price, liquidity and volatility impact of underlying stocks after warrant issuance and find considerable differences to those found for option listings. Significant negative abnormal returns on both the announcement and listing date of derivative warrants are reported, followed by a negative price drift. Relative trading volume and price volatility of underlying stocks are found to be significantly higher post-warrant listing. Interestingly, we find that warrant holders are unable to realize gains for the majority of trading days when they are alive, consistent with the view that banks trade profitability from their issue.

References

Bollen, N., 1998, A note on the impact of options on stock return volatility, *Journal of Banking and Finance* 22, 1181–1191.

Chamberlain, T., C. Cheung, and C. Kwan, 1993, Options listing, market liquidity and stock behaviour: some

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising purposes. You may change your settings at any time or accept the default settings. [Privacy Policy](#).

[Manage Preferences](#)

[Accept All](#)

Conrad, J., 1989, The price effect of option introduction, *The Journal of Finance* 44, 487-498.

Damodaran, A., and M. Subrahmanyam, 1992, The effects of derivative securities on the markets for the underlying assets in the United States, *A Survey, Financial Markets, Institutes and Instruments* 1, 1-22.

Danielsen, B., and S. Sorescu, 2001, Why do option introductions depress stock prices? A study of diminishing short-sale constraints, *Journal of Financial and Quantitative Analysis* 36, 451-484.

Detemple, J., and L. Selden, 1991, A general equilibrium analysis of option and stock market interactions, *International Economic Review* 32, 279-303.

Draper, P., B. Mak, and G. Tang, 2001, The derivative warrant market in Hong Kong: relationships with underlying assets, *The Journal of Derivatives* 8, 72-83.

Figlewski, S., 1981, The informational effects of restrictions on short sales: some empirical evidence, *Journal of Financial and Quantitative Analysis* 16, 463-476.

Green, R., and R. Jarrow, 1987, Spanning and completeness in markets with contingent claims, *Journal of Economic Theory* 41, 202-210.

Hakkansson, N., 1982, Changes in the financial market: welfare and price effects and the basic theorems of value conservation, *Journal of Finance* 37, 977-1004.

Hodges, S., 1992, Do derivative instruments increase market volatility?, in: S. Hodges, ed., *Options: recent advances in theory and practice* (Manchester University Press, Manchester) 194-214.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising purposes. You may change your settings at any time or accept the default settings. [Privacy Policy](#)

Manage Preferences

Accept All

Ma, C., and R. Rao, 1988, Information asymmetry and options trading, *Financial Review* 23, 39-51.

Mayhew, S., and V. Mihov, 2000, Another look at option listing effects, Working paper (University of Georgia , Athens , GA).

McInish, T., and R. Wood, 1992, An analysis of intraday patterns in bid/ask spreads for NYSE stocks, *The Journal of Finance* 47, 753-763.

Miller, E., 1977, Risk, uncertainty, and divergence of opinion, *Journal of Finance* 32, 1151-1168.

Ross, S., 1976, Options and efficiency, *Quarterly Journal of Economics* 90, 75-89.

Skinner, D., 1989, Options markets and stock return volatility, *The Journal of Financial Economics* 23, 61-78. DOI: [10.1016/0304-405X\(89\)90005-6](https://doi.org/10.1016/0304-405X(89)90005-6)

Sorescu, S., 1999, The effect of options on stock prices, *Journal of Finance* 55, 487-514. DOI: [10.1111/0022-1082.00214](https://doi.org/10.1111/0022-1082.00214)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising purposes. You may change your settings at any time or accept the default settings. [Privacy Policy](#).

[Manage Preferences](#)

[Accept All](#)

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

WILEY

Copyright © 1999-2023 John Wiley & Sons, Inc. All rights reserved

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising purposes. You may change your settings at any time or accept the default settings. [Privacy Policy](#).

Manage Preferences

Accept All