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Option Volume and Volatility Response to Scheduled Economic News Releases: Evidence of Informed Trading

50 Pages

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Abstract

In this paper, we examine the impact of scheduled macroeconomic news announcements on both OEX index options and individual equity option volume. We do this in order to study the way in which investors use these options in their portfolios. We find that announcements are associated with an increase in OEX option volume but not in the volume of individual equity options. Consumer Confidence and New Home Sales elicit the highest trading response. Our primary findings are evidence of informed trading in the OEX option market before the announcement as well as significant evidence of hedging activity. These findings indicate that investors use index options to increase the leverage of their portfolios when they have private information and to protect themselves against adverse information when they do not.

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