

[Download This Paper \(Delivery.cfm/SSRN\\_ID2643257\\_code400655.pdf?abstractid=1991522&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2643257_code400655.pdf?abstractid=1991522&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID2643257\\_code400655.pdf?abstractid=1991522&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2643257_code400655.pdf?abstractid=1991522&mirid=1&type=2)[Add Paper to My Library](#)Share: [f](#) [t](#) [e](#) [p](#)

## A Comprehensive Study of the Chinese Warrants Bubble

16 Pages

Posted: 25 Jan 2012

Last revised: 13 Aug 2015

Tao L. Wu ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=400655](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=400655))

Illinois Institute of Technology

[There are 3 versions of this paper](#)

Date Written: January 24, 2012

### Abstract

We conduct the most comprehensive study to date of the Chinese warrants market in terms of the length of the sample period and the variety of the warrants investigated. During our sample period from August 2005 to September 2009, the underlying Chinese stock market peaked in October 2007, and then crashed dramatically. Starting by the end of October 2008, the market recovered steadily. We examine the pricing of put warrants, as well as covered call warrants and (uncovered) equity call warrants during such market swings. Our analysis indicates that Chinese warrants exhibited large pricing bubbles as their market prices significantly deviated from those implied by option pricing models. We show empirically that the bubble size is positively related to turnover, daily price change, and negatively related to the total number of warrants outstanding. These results are consistent with the prediction of the Greater Fool Theory: an investor buys securities without regard to their fundamental value, but with the hope of quickly selling them off at a higher price to another investor who might also be hoping to flip them quickly. Moreover, we find evidence that the stock price declines associated with the conversion of previously state-owned non-tradable shares into tradable ones dampened the bubble behavior for those companies' covered call warrants, relative to warrants on companies that did not participate in share conversions.

[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID2643257\\_code400655.pdf?abstractid=1991522&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2643257_code400655.pdf?abstractid=1991522&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID2643257\\_code400655.pdf?abstractid=1991522&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2643257_code400655.pdf?abstractid=1991522&mirid=1&type=2)

## 15 References

1. References Black , F Scholes , M  
The Pricing of Options and Corporate Liabilities  
Journal of Political Economy , p. 637 - 654 Posted: 1973  
Crossref (<https://doi.org/10.1086/260062>)
2. C F Camerer  
Taxi Drivers and Beauty Contests. Engineering and Science , p. 10 - 19 Posted: 1997  
Crossref ([https://doi.org/10.1163/1874-6772\\_seg\\_a35\\_1754bis](https://doi.org/10.1163/1874-6772_seg_a35_1754bis))
3. J H Cochrane  
Stock as Money: Convenience Yield and the Tech-stock Bubble  
Asset Price Bubbles: The Implications for Monetary, Regulatory, and International Policies Posted: 2003

4. J B De Long , A Shleifer , L H Summers , R Waldmann

We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve, and personalize our content and your digital experience. For more information, see our [Cookie Policy](#)

[https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=400655](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=400655)Noise Trader Risk in Financial Markets  
Journal of Political Economy , p. 738 - 753 Posted: 1990Crossref (<https://doi.org/10.1086/261703>)[Cookie Settings](#)[Accept all cookies](#)

Fetch Citations

Do you have a job opening that you would like to promote on SSRN?

Place Job Opening (<https://www.ssrn.com/index.cfm/en/Announcements-Jobs/>)

Paper statistics

DOWNLOADS	96
ABSTRACT VIEWS	1,228
RANK	128,545

15 References

PlumX Metrics



[https://plu.mx/ssrn/a/?ssrn\\_id=1991322](https://plu.mx/ssrn/a/?ssrn_id=1991322)

Related Journals

Derivatives eJournal ([https://papers.ssrn.com/sol3/JELJOUR\\_Results.cfm?form\\_name=journalBrowse&journal\\_id=1504400](https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1504400))

Follow



Emerging Markets: Finance eJournal ([https://papers.ssrn.com/sol3/JELJOUR\\_Results.cfm?form\\_name=journalBrowse&journal\\_id=1492283](https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1492283))

Follow



View more >

Recommended Papers

- Short Sale Constraints and Stock Returns ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=281514&rec=1&srcabs=1991522&pos=1](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=281514&rec=1&srcabs=1991522&pos=1))

By Charles M. Jones ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=17841](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=17841)) and Owen A. Lamont ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=16329](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16329))
- Short Sale Constraints and Stock Returns ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=285614&rec=1&srcabs=1991522&pos=2](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=285614&rec=1&srcabs=1991522&pos=2))

By Charles M. Jones ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=17841](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=17841)) and Owen A. Lamont ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=16329](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16329))
- Breadth of Ownership and Stock Returns ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=247049&rec=1&srcabs=1991522&pos=3](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=247049&rec=1&srcabs=1991522&pos=3))


By Joseph Chen ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=88071](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=88071)), Harrison G. Hong ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=342554](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=342554)), ...


View more >


Feedback

Submit a Paper > (<https://hq.ssrn.com/submissions/CreateNewAbstract.cfm>)



 (<https://www.facebook.com/SSRNcommunity/>)

 ([https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1%2F&trkInfo=clickedEntityId%3Acompany_493409%2Cidx%3A1%2F)

 (<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>)

Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#). 

(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)