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Market Efficiency and Limits to Arbitrage: Evidence from the Volkswagen Short Squeeze

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Abstract

On October 26, 2008, Porsche announced a largely unexpected domination plan for Volkswagen. The resulting short squeeze in Volkswagen's stock briefly made it the most valuable listed company in the world. We argue that this was a manipulation designed to save Porsche from insolvency and the German laws against this kind of abuse were not effectively enforced. Using hand-collected data we provide the first rigorous academic study of the Porsche-VW squeeze and show that it significantly impeded market efficiency. Preventing manipulation is important because without efficient securities markets, the EU's major project of the Capital Markets Union cannot be successful.

Keywords: Limits to arbitrage, short selling, stock cornering, disclosure and securities regulation.**JEL Classification:** G10; G12; G13; G14; G18; G28; G32.[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID3680677_code623849.pdf?abstractid=2977019&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3680677_code623849.pdf?abstractid=2977019&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID3680677_code623849.pdf?abstractid=2977019&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3680677_code623849.pdf?abstractid=2977019&mirid=1&type=2)

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