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≡ Menu

The Chinese Warrants Bubble

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Article Information

Abstract

In 2005–2008, over a dozen put warrants traded in China went so deep out of the money that they were almost certain to expire worthless. Nonetheless, each warrant was traded more than three times each day at substantially inflated prices. This bubble is unique in that the underlying stock prices make warrant fundamentals publicly observable and that warrants have predetermined finite maturities. This sample allows us to examine a set of bubble theories. In particular, our analysis highlights the joint effects of short sales constraints and heterogeneous beliefs in driving bubbles

and confirms several key findings of the experimental bubble literature. (JEL G12, G13, G16, P24)

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[Replication Package \(85.21 KB\)](#)

JEL Classification

G12 Asset Pricing; Trading volume; Bond Interest Rates

G13 Contingent Pricing; Futures Pricing; option pricing

O16 Economic Development: Financial Markets; Saving and Capital Investment; Corporate Finance and Governance

P34 Socialist Institutions and Their Transitions: Financial Economics

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