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Vega-informed trading and options market reform

Doojin Ryu, Doowon Ryu & Heejin Yang

Pages 19-24 | Published online: 25 Apr 2019

Cite this article <https://doi.org/10.1080/13504851.2019.1606399>

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Notes

¹ We classify options trades as those made by domestic individual investors, domestic institutional investors, and foreign institutional investors. The proportions and trading volumes of foreign individual investors and government-owned firms are negligible in the KOSPI200 options market.

² The lagged realized volatility (RV) is included in our model to take into account volatility persistency and clustering. If we do not control for the RV time series, the significantly estimated coefficients on the options demand measures do not guarantee volatility information content of options trading. When we incorporate more lagged RV terms into the regression equation, our conclusion remains the same.

³ For robustness, we construct some additional demand measures: 1) the net demand measure (e.g., $D_t = \sum_{K \in T} \frac{1}{C_{K,T}} \frac{\partial C_{K,T}}{\partial \sigma} (\text{BuyCall}_{K,T} - \text{SellCall}_{K,T}) + \sum_{K \in T} \frac{1}{P_{K,T}} \frac{\partial P_{K,T}}{\partial \sigma} (\text{BuyPut}_{K,T} - \text{SellPut}_{K,T})$); 2) the volume-adjusted demand measure (e.g., $PD_t = \sum_{K \in T} \frac{1}{C_{K,T}} \frac{\partial C_{K,T}}{\partial \sigma} (\text{BuyCall}_{K,T} / OV_t) + \sum_{K \in T} \frac{1}{P_{K,T}} \frac{\partial P_{K,T}}{\partial \sigma} (\text{BuyPut}_{K,T} / OV_t)$, where OV_t denotes the total options trading

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