The European Journal of Finance ›
Volume 13, 2007 - Issue 3

Original Articles

Conducting Event Studies on a Small Stock Exchange

Jan Bartholdy, Dennis Olson & Paula Peare

Pages 227-252 | Published online: 08 Feb 2011
Cite this article https://doi.org/10.1080/13518470600880176

Abstract

This paper analyses whether it is possible to perform an event study on a small stock exchange with thinly trade stocks. The main conclusion is that event studies can be
performe ... f 25 events
appears ... Second,
trade to ... stently
detect a ... unless the
sample ... s are
gene ... earchers
shoul ... inally, when
nonnorm ... f very thin
trading a ... st statistic
dominat

Keywor

Acknowledgements

The authors thank two anonymous referees for helpful comments, and participants at the FMA conference in New Orleans.

Notes

1. Although event studies date back to the 1930s, the papers by Ball and Brown (1968) and Fama et al. (1969) introduced the methods used today. MacKinlay (1997) contains an excellent description of the history and implementation of event studies.

2. If the difference between the 'filled in' value and the underlying unobservable 'true' value is white noise then both the lumped and uniform methods provide an unbiased estimate of returns. Also, the bias in the lumped return method may not be too large if volume and returns are positively correlated. If a lack of volume implies small price changes, a zero return on a nontrading day might be a reasonable estimate of the true unobserved return for that day. See Karpoff (1987) for a survey of the relationship between changes in price and volume.

3. Real-time values for the KFX are provided by several data vendors. For example, it is listed as KFX on Yahoo-Finance. The KFX is a value-weighted index of the 20 largest Danish b ... (liquid)
stocks d ... Although the
index is ... of the
Danish e ... luded firms
in food p ... ation,
pharmac ... ed
divid ... ly to suffer
from th ... qual or
value-we

4. Test s ... ndence, as
presente ... tatistics are
related t ... t they did

not perform as well as T_1. Further description of test statistics and results from the lumped return adjustment are available from the authors upon request.

5. Although results for the lumped return adjustment for thin trading are not reported in the paper for the sake of brevity, lumped returns actually provide slightly better results in terms of power and size for the medium traded group. Trade to trade returns do better for both thickly and thinly traded stocks. Nevertheless, since the lumped return adjustment is relatively easy to implement, researchers facing time constraints might consider it.

6. If there are no trades on the n−1 days between day t−n and day t, then the n daily returns for day's t−(n−1) to day t are unobserved.

7. This is often referred to as Patell's (1976) adjustment.
