

Table of Contents

List of Tables	XV
List of Figures	XVII
List of Abbreviations	XIX
1 Introduction	1
1.1 Background and Objective	1
1.2 Organization of the Dissertation.....	2
2 Background and Empirical Predictions	7
2.1 Short Selling.....	7
2.1.1 Foundations.....	7
2.1.1.1 General Mechanics and Institutional Details of Short Sales in U.S. Equity Markets	7
2.1.1.2 A Change to U.S. Short Selling Regulation – Regulation SHO	11
2.1.1.3 Motives for Short Selling Activities	14
2.1.1.4 Market Development of Short Sales in Recent Years	15
2.1.2 Literature Review on Short Selling	17
2.1.2.1 Theoretical Work.....	17
2.1.2.2 Empirical Evidence	18
2.1.2.2.1 Information Content of Short Sales	18
2.1.2.2.2 Arbitrage-Based Short Selling.....	21
2.1.3 Determinants of Short Selling	23
2.1.3.1 Valuation.....	23
2.1.3.2 Arbitrage and Hedging	24
2.1.3.3 Short Sale Constraints	26
2.1.4 Summary	27
2.2 Convertible Bond Arbitrage	29
2.2.1 Convertible Bonds.....	30
2.2.1.1 Theoretical Foundations and Terminology.....	30
2.2.1.2 Delta and Gamma.....	34
2.2.2 The Convertible Bond Arbitrage Strategy	37
2.2.3 Historical Performance and Market Activity.....	42
2.2.4 Literature Review on Convertible Bond Arbitrage and Short Selling Activity	44

2.2.5	Summary	45
2.3	Empirical Predictions	45
2.3.1	Research Objective and Propositions	46
2.3.2	Difference in Trading Pattern.....	47
2.3.3	Difference in Information Content and Impact on Stock Returns	48
3	The Event Study Methodology	53
3.1	Relevance of the Methodology for the Empirical Investigation	53
3.2	Outline of an Event Study	54
3.3	Estimation of Abnormal Returns.....	56
3.3.1	Overview.....	56
3.3.2	Market Model Approach	56
3.3.3	Market Adjusted Return Model Approach.....	57
3.3.4	Time-Series and Cross-Sectional Aggregation.....	58
3.4	Estimation of Abnormal Short Selling Activity	59
3.4.1	Overview.....	59
3.4.2	Mean Adjusted Approach.....	60
3.4.3	Market Model Approach	61
3.4.4	Time-Series and Cross-Sectional Aggregation.....	62
3.5	Hypotheses Testing	63
3.5.1	Tests of Equality	64
3.5.2	Single Hypotheses Tests	65
3.6	Summary	66
4	Data, Full Sample and Variable Construction.....	67
4.1	Data Sources.....	67
4.1.1	Daily Short Sale Transaction Data	67
4.1.2	Convertible Bond Data.....	69
4.1.3	Stock, Firm, and Accounting Data	69
4.2	Full Sample Construction	70
4.3	Variable Construction	71
4.3.1	Firm and Stock Characteristics.....	71
4.3.2	Trading Activity Variables.....	73
4.3.3	Dummy Variables	74
4.3.4	Convertible Bond Variables	75
4.4	Summary	76

5	Difference in Abnormal Short Selling Activity Following Events of Large Positive Stock Price Changes.....	79
5.1	Measuring the Difference in Abnormal Short Selling Activity	79
5.1.1	Methodology and Set-up	80
5.1.1.1	Event Determination and Sample Construction.....	80
5.1.1.2	Measuring Post-Event Abnormal Short Selling Activity.....	82
5.1.1.3	Measuring Differences between Event Observation Sub-Samples.....	83
5.1.1.4	Building Delta Splits	84
5.1.2	Descriptives.....	85
5.1.2.1	Total Event Sample and Sub-Sample Characteristics.....	85
5.1.2.2	Delta Split Characteristics	88
5.1.3	Event Study Results	94
5.1.3.1	Total Event Sample Results.....	94
5.1.3.2	Delta Split Results.....	97
5.1.3.3	Robustness Tests	107
5.1.4	Summary	108
5.2	Investigating Abnormal Short Selling Activity	109
5.2.1	Cross-Sectional Analyses.....	109
5.2.1.1	Set-up and Regression Framework.....	109
5.2.1.2	Results.....	122
5.2.2	Role of Convertible Bond Arbitrage in Abnormal Short Selling Activity	125
5.2.2.1	Set-up and Regression Framework.....	125
5.2.2.2	Results.....	127
5.2.3	Impact of Abnormal Short Selling Activity on Stock Returns	127
5.2.3.1	Estimating Abnormal Returns	128
5.2.3.2	Relationship between Abnormal Returns and Short Selling Activity.....	136
5.2.4	Summary	142
5.3	Conclusion	143
6	Difference in Information Content of Extreme Short Selling Activity Events and the Impact on Stock Returns	145
6.1	Measuring the Difference in Information Content.....	145
6.1.1	Methodology and Set-up	146
6.1.1.1	Event Determination and Sample Construction.....	146
6.1.1.2	Measuring Post-Event Abnormal Returns	148

6.1.1.3	Measuring Differences between Event Observation Sub-Samples and Building Delta Splits	149
6.1.2	Descriptives.....	150
6.1.2.1	Total Event Sample and Sub-Sample Characteristics.....	150
6.1.2.2	Delta Split Characteristics.....	153
6.1.3	Event Study Results	160
6.1.3.1	Total Event Sample Results.....	160
6.1.3.2	Delta Split Results.....	163
6.1.3.3	Robustness Tests	172
6.1.4	Summary.....	174
6.2	Investigating the Impact on Stock Returns.....	175
6.2.1	Stock Return Recovery Test.....	175
6.2.2	Short Selling Activity and the Temporary Price Pressure Effect.....	177
6.2.2.1	Estimating Abnormal Short Selling Activity.....	178
6.2.2.2	Relationship between Abnormal Returns and Short Selling Activity.....	186
6.2.2.3	Testing for Short-Selling Induced Temporary Price Pressure	192
6.2.3	Summary.....	194
6.3	Conclusion	195
7	Overall Conclusion.....	197
	Appendix.....	201
	References.....	245