Abstract

This dissertation consists of two essays. The first essay "Is Option Market only Informative Prior to Extreme Informational Event? Empirical Analysis of Option Volume before Earnings Announcement" reports that option volumes are informative even before prescheduled events such as earnings announcements. Based on a sample of US firms with option listings in 2004 to 2005, three patterns emerge. First, option volumes before earning announcements are significantly higher than option volumes in normal periods and such abnormal trading activities are concentrated in short-term out-of-money call and in-the-money put. Second, pre-announcements abnormal option volumes predict next-day excess returns of the underlying stock, where option characteristics (e.g. moneyness and expiry) and firm earnings matter for the aforementioned predictability. Finally we find that this predictability of abnormal option trading volume is asymmetric over (i) call and put, and (ii) behavioral threshold of earnings management. Overall these findings suggest that option market maybe a venue for information-based trading. Informed traders do trade options to capitalize on their private information and their private information gets revealed through option trading.

The second essay "Price discovery of Cross-listing stocks: Evidences from Chinese A-share and H-share listing firms" examine the short-run price dynamics, cointegrating relations and price discovery processes of cross-listing firms based on Hasbrouck (1995) information share theory. Using high frequency data of a sample of firms listed on both the Shanghai Stock Exchange (SSE) and Hong Kong Stock Exchange (HKEx) and

included in the Hang Seng China AH indices, we find that strikingly the majority of the price discovery occurs in A-Share market. The A-share market of price discovery ranges averagely from 89.2% to 95.9%. Our findings evident the dominance of A-share market in incorporating new information into the implicit efficient prices. Our results suggest that domestic Chinese investors may receive news about China firms faster than foreign investors.