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Risk-Sharing, Market Imperfections, Asset Prices: Evidence from China's Stock Market Liberalization*

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Abstract

We examine the roles of risk-sharing and other factors in stock price revaluation during a recent liberalization episode in China. Consistent with the theoretical prediction that liberalizations reduce systematic risk, we find that risk-sharing explains approximately one-fourth of the price revaluation of investible stocks during the eight-month window between reform announcement and implementation. The firm-specific information generated by the reform is more efficiently priced into stocks that have a higher degree of market liquidity, information transparency, and informed trading.

JEL CLASSIFICATION: G12, G15, G18

Keywords: stock market liberalization, Chinese reform, risk-sharing, market imperfections, asset pricing

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