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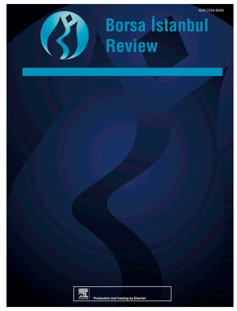

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Market reaction to grouping equities in stock markets: An empirical analysis on Borsa Istanbul

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Abstract

The main aim of this study is to investigate the market reaction to stock grouping announcements in Borsa Istanbul which requires stocks to be classified into groups "A", "B" and "C" according to their market capitalization and floating rates. By utilizing event study analysis, our results suggest that grouping announcements have significant effect on stock prices and trading volume. The event day positive (negative) relationship between abnormal return and volume for the upgraded (downgraded) stocks supports the downward sloping demand curve hypothesis which suggests that stocks that are in Group A are exposed to higher demand and more attention than the stocks in the other groups. We find no evidence of price reversals and long-term symmetrical liquidity effect which lead us to reject price pressure and liquidity hypotheses. Finally, we reach controversial evidence for the information hypothesis.

Jel Classification: G11: G12: G14

Keywords: Equity grouping; regulation; index addition.