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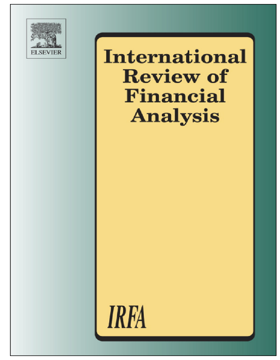

Who exacerbates the extreme swings in the Chinese stock market?

Shu Tian, Eliza Wu, Qiongbing Wu

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Who exacerbates the extreme swings in the Chinese stock market?

Shu Tian
Economic Research and Regional Cooperation Department, Asian Development Bank,
Metro Manila Philippines 1550

Eliza Wu*
University of Sydney Business School, University of Sydney, Camperdown, NSW Australia 2006

Qiongbing Wu
School of Business, Western Sydney University, Parramatta, NSW Australia 2150

Abstract

We investigate the dominant investors that buy or sell relatively more on the days when the absolute value of market returns or the daily range of market index prices exceeds 5% in the Chinese stock market. Unlike Dennis and Strickland [*Journal of Finance* 57(5): 1923-1949 (2002)] who find that institutional investors are buying (selling) more when there is a large market increase (decline) in U.S. equity markets, we find that institutional investors in China are systematically buying more than the less sophisticated individual investors during extreme market swings, particularly on extreme market-down days. We reveal that institutional investors in China (primarily pension funds), provide a stabilizing influence during market downturn days. Our findings highlight the benefits of having active institutional investors in an extremely volatile emerging market dominated by less sophisticated individual investors.

JEL classification: G11, G12, G14.
Keyword: institutional ownership, institutional trading, abnormal returns, extreme market swings

* *Corresponding author, email: eliza.wu@sydney.edu.au, tel: +61-2-86274626*

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