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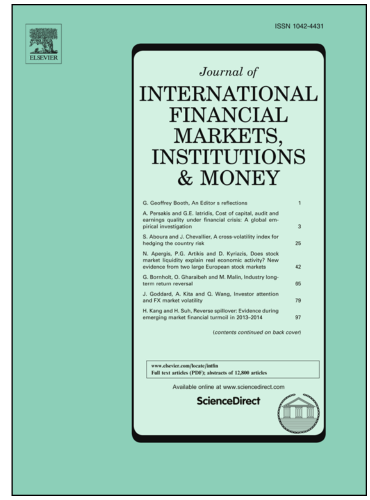

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Does feedback trading drive returns of cross-listed shares?

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Abstract

This paper examines the role of cross-listing in stock return dynamics with particular reference to feedback trading based on a sample of five most frequently traded cross-listed shares. We find that a long-run equilibrium relationship among the cross-listed share prices exists, but find no evidence of long-run co-movements among different shares traded in the same exchange. Furthermore, the VAR Granger causality tests indicate bi-directional feedback relations among the returns of cross-listed shares, while there is no consistent causality among different stocks within the markets. We also find that the cross-listed shares demonstrate strong volatility spillovers, which is driven by the covariance structure that is formed by variance and correlation terms. In addition, we report liquidity spillover effects and spillovers running from liquidity to volatility for some firms but no evidence that spillover effects run from volatility to liquidity.

Keywords: Feedback trading, High-frequency trading, Cross-listing, Spillover, Volatility, Liquidity,

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