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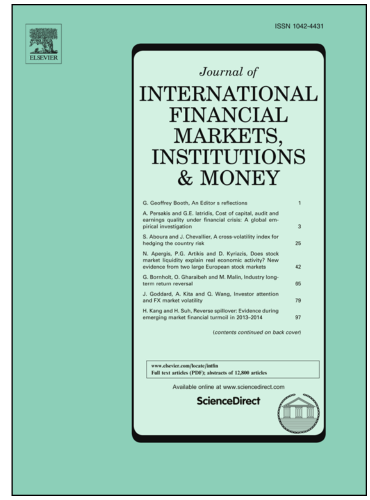

Social Norms and Market Outcomes: The Effects of Religious Beliefs on Stock Markets

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Social Norms and Market Outcomes: The Effects of Religious Beliefs on Stock Markets

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Abstract

This study investigates whether religious-based trading practices impede market development. As a natural experiment, we use data from the Gulf Cooperation Council (GCC) countries, which have clearly defined religious rules on investing in stock markets. We find that non-Islamic stocks in these markets are relatively neglected, have higher returns, lower liquidity, and face higher liquidity risk compared to Islamic stocks. Our overall evidence, therefore, supports the hypothesis of market segmentation. Our results highlight a potential challenge for the stock markets of religious Islamic societies in seeking to become globally competitive.

Keywords: `Social norms; Market segmentation; Liquidity; Liquidity risk; Islamic stocks`

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