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## Price Limits and Volatility

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### Abstract:

This study provides new evidence on efficacy of daily price limit rules. We propose use of propensity score matching techniques to reduce sample selection bias in widely used Kim and Rhee (1997). Using data from the Tokyo Stock Exchange over a period of 5 years from January 2001 to December 2005, this study shows that price limit rules work quite efficiently for lower limit hits as there is no evidence of volatility spill-over. We also find that daily price limits have differential effects on permanent and transitory components of daily volatility. Our study reports evidence of spill-over of permanent volatility. However, we find price limit successfully curbs the transitory volatility on the post limit hit days.

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**Keywords:** Price limit rules; Permanent and transitory volatility; Post limit hit day; Propensity score matching; Volatility spill over.

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