

Table of Contents

| | |
|--|-------------|
| List of Tables | XV |
| List of Figures | XVII |
| List of Abbreviations | XIX |
| 1 Introduction | 1 |
| 1.1 Background and Objective | 1 |
| 1.2 Organization of the Dissertation | 2 |
| 2 Background and Empirical Predictions | 7 |
| 2.1 Short Selling | 7 |
| 2.1.1 Foundations | 7 |
| 2.1.1.1 General Mechanics and Institutional Details of Short Sales in U.S. Equity Markets | 7 |
| 2.1.1.2 A Change to U.S. Short Selling Regulation – Regulation SHO | 11 |
| 2.1.1.3 Motives for Short Selling Activities | 14 |
| 2.1.1.4 Market Development of Short Sales in Recent Years | 15 |
| 2.1.2 Literature Review on Short Selling | 17 |
| 2.1.2.1 Theoretical Work | 17 |
| 2.1.2.2 Empirical Evidence | 18 |
| 2.1.2.2.1 Information Content of Short Sales | 18 |
| 2.1.2.2.2 Arbitrage-Based Short Selling | 21 |
| 2.1.3 Determinants of Short Selling | 23 |
| 2.1.3.1 Valuation | 23 |
| 2.1.3.2 Arbitrage and Hedging | 24 |
| 2.1.3.3 Short Sale Constraints | 26 |
| 2.1.4 Summary | 27 |
| 2.2 Convertible Bond Arbitrage | 29 |
| 2.2.1 Convertible Bonds | 30 |
| 2.2.1.1 Theoretical Foundations and Terminology | 30 |
| 2.2.1.2 Delta and Gamma | 34 |
| 2.2.2 The Convertible Bond Arbitrage Strategy | 37 |
| 2.2.3 Historical Performance and Market Activity | 42 |
| 2.2.4 Literature Review on Convertible Bond Arbitrage and Short Selling Activity | 44 |

| | | |
|----------|---|-----------|
| 2.2.5 | Summary | 45 |
| 2.3 | Empirical Predictions | 45 |
| 2.3.1 | Research Objective and Propositions | 46 |
| 2.3.2 | Difference in Trading Pattern | 47 |
| 2.3.3 | Difference in Information Content and Impact on Stock Returns | 48 |
| 3 | The Event Study Methodology | 53 |
| 3.1 | Relevance of the Methodology for the Empirical Investigation | 53 |
| 3.2 | Outline of an Event Study | 54 |
| 3.3 | Estimation of Abnormal Returns | 56 |
| 3.3.1 | Overview | 56 |
| 3.3.2 | Market Model Approach | 56 |
| 3.3.3 | Market Adjusted Return Model Approach | 57 |
| 3.3.4 | Time-Series and Cross-Sectional Aggregation | 58 |
| 3.4 | Estimation of Abnormal Short Selling Activity | 59 |
| 3.4.1 | Overview | 59 |
| 3.4.2 | Mean Adjusted Approach | 60 |
| 3.4.3 | Market Model Approach | 61 |
| 3.4.4 | Time-Series and Cross-Sectional Aggregation | 62 |
| 3.5 | Hypotheses Testing | 63 |
| 3.5.1 | Tests of Equality | 64 |
| 3.5.2 | Single Hypotheses Tests | 65 |
| 3.6 | Summary | 66 |
| 4 | Data, Full Sample and Variable Construction | 67 |
| 4.1 | Data Sources | 67 |
| 4.1.1 | Daily Short Sale Transaction Data | 67 |
| 4.1.2 | Convertible Bond Data | 69 |
| 4.1.3 | Stock, Firm, and Accounting Data | 69 |
| 4.2 | Full Sample Construction | 70 |
| 4.3 | Variable Construction | 71 |
| 4.3.1 | Firm and Stock Characteristics | 71 |
| 4.3.2 | Trading Activity Variables | 73 |
| 4.3.3 | Dummy Variables | 74 |
| 4.3.4 | Convertible Bond Variables | 75 |
| 4.4 | Summary | 76 |

| | | |
|----------|---|------------|
| 5 | Difference in Abnormal Short Selling Activity Following Events of Large Positive Stock Price Changes | 79 |
| 5.1 | Measuring the Difference in Abnormal Short Selling Activity | 79 |
| 5.1.1 | Methodology and Set-up | 80 |
| 5.1.1.1 | Event Determination and Sample Construction..... | 80 |
| 5.1.1.2 | Measuring Post-Event Abnormal Short Selling Activity..... | 82 |
| 5.1.1.3 | Measuring Differences between Event Observation Sub-Samples..... | 83 |
| 5.1.1.4 | Building Delta Splits | 84 |
| 5.1.2 | Descriptives..... | 85 |
| 5.1.2.1 | Total Event Sample and Sub-Sample Characteristics..... | 85 |
| 5.1.2.2 | Delta Split Characteristics | 88 |
| 5.1.3 | Event Study Results | 94 |
| 5.1.3.1 | Total Event Sample Results..... | 94 |
| 5.1.3.2 | Delta Split Results..... | 97 |
| 5.1.3.3 | Robustness Tests | 107 |
| 5.1.4 | Summary | 108 |
| 5.2 | Investigating Abnormal Short Selling Activity | 109 |
| 5.2.1 | Cross-Sectional Analyses..... | 109 |
| 5.2.1.1 | Set-up and Regression Framework..... | 109 |
| 5.2.1.2 | Results..... | 122 |
| 5.2.2 | Role of Convertible Bond Arbitrage in Abnormal Short Selling Activity | 125 |
| 5.2.2.1 | Set-up and Regression Framework..... | 125 |
| 5.2.2.2 | Results..... | 127 |
| 5.2.3 | Impact of Abnormal Short Selling Activity on Stock Returns | 127 |
| 5.2.3.1 | Estimating Abnormal Returns | 128 |
| 5.2.3.2 | Relationship between Abnormal Returns and Short Selling Activity | 136 |
| 5.2.4 | Summary | 142 |
| 5.3 | Conclusion | 143 |
| 6 | Difference in Information Content of Extreme Short Selling Activity Events and the Impact on Stock Returns | 145 |
| 6.1 | Measuring the Difference in Information Content..... | 145 |
| 6.1.1 | Methodology and Set-up..... | 146 |
| 6.1.1.1 | Event Determination and Sample Construction..... | 146 |
| 6.1.1.2 | Measuring Post-Event Abnormal Returns..... | 148 |

| | | |
|----------|--|------------|
| 6.1.1.3 | Measuring Differences between Event Observation Sub-Samples and Building Delta Splits | 149 |
| 6.1.2 | Descriptives..... | 150 |
| 6.1.2.1 | Total Event Sample and Sub-Sample Characteristics..... | 150 |
| 6.1.2.2 | Delta Split Characteristics | 153 |
| 6.1.3 | Event Study Results | 160 |
| 6.1.3.1 | Total Event Sample Results..... | 160 |
| 6.1.3.2 | Delta Split Results | 163 |
| 6.1.3.3 | Robustness Tests | 172 |
| 6.1.4 | Summary | 174 |
| 6.2 | Investigating the Impact on Stock Returns..... | 175 |
| 6.2.1 | Stock Return Recovery Test..... | 175 |
| 6.2.2 | Short Selling Activity and the Temporary Price Pressure Effect..... | 177 |
| 6.2.2.1 | Estimating Abnormal Short Selling Activity..... | 178 |
| 6.2.2.2 | Relationship between Abnormal Returns and Short Selling Activity | 186 |
| 6.2.2.3 | Testing for Short-Selling Induced Temporary Price Pressure | 192 |
| 6.2.3 | Summary | 194 |
| 6.3 | Conclusion | 195 |
| 7 | Overall Conclusion..... | 197 |
| | Appendix..... | 201 |
| | References..... | 245 |