

IS THE STOCK MARKET JUST A SIDESHOW? EVIDENCE FROM A STRUCTURAL REFORM

Speaker: Professor Murillo Campello, Cornell University & NBER

Date: 18 February 2014

Time: 10:30-12:00

Venue: Cambridge Judge Business School (W2.01)

Abstract

The 2005 split-share reform in China ordered the conversion of previously non-tradable stocks into tradable status. The reform was swift and changed investors' ability to trade corporate equities in a US\$400 billion market. This paper examines the effects of stock markets on firms' real and financial outcomes. It does so exploiting multiple institutional features of the Chinese equity conversion programme. We first examine a pilot trial conducted at the beginning of the reform, which we are able to replicate using the same data and selection criteria that was used by policy-makers. We also take advantage of the staggered nature of the conversion schedule used in the second phase of the reform, whereby over one thousand firms converted their shares at different times within a government-dictated window. These various wrinkles produce counterfactuals against which to gauge the economic importance of secondary equity trading. Using a time-varying treatment estimation approach, we identify increases in corporate profitability, investment, value, and productivity as a result of the reform. We also identify changes in firms' propensity to issue new shares and engage in merger deals, as well as changes in their dividend and capital structure policies. Our findings provide insights on the role of stock markets in shaping corporate activity and on the impact of market regulation on economic growth.

Seminar in association with the Cambridge Corporate Governance Network (CCGN)