

The Impact of Warrant Listing by Dr.Arnat Leemakdej

ABSTRACT

This study examines the impact of warrant listing on the volatility of underlying stocks listed on the Stock Exchange of Thailand (SET). It notices that the resulting impact can be direct from a change of the firm's capital structure and can be indirect from other sources such as information asymmetry or risk tolerance asymmetry being proposed by previous literature. It then proposes an approach to separating these two impacts and testing if the listing lead to excessive volatility. Using the daily market data on all firms whose warrants are listed on the SET from 1994 to 1997, it finds that there exists an indirect impact which helps to stabilize the volatility of underlying stock. The structural test verifies that the change in volatility cannot be explained by regimes switching. The size and the direction of the indirect impact are inferred from the difference between the observed stock volatility and the stock volatility projected by the direct impact model. This approach has advantages over the traditional event study, which compares the volatility of before and after warrant listing, in that it can avoid biases induced by a structural change of market and it does not require the identification of warrant listing date.

The study further conducts the Granger causality test for robustness check and finds that historical "classified" volume of warrant trading can explain change in stock price. The results are consistent with the proposition that informed traders might migrate into warrant trading resulting in the decline of stock volatility. It is also found that good news are rapidly delivered into the market from buying volume of warrant while bad news is delayed.