

**Margin Trading and Corporate
Investments:
Evidence from a Quasi-natural
Experiment in China**

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Findings

- Shows a link between margin trading and the investment decisions of firms
- More margin trading leads to higher expenditure on Capex and R&D
- Mechanism may be more informed prices, or potentially cheaper debt
- Also allow short selling of stocks...

Shanghai Composite Index



Bitcoin Price (INR)



Shorting introduced late 2017

Contribution

- Allows Shorting + Margin Lending
- Margin lending 100x larger than shorting activity
- Evidence of increased pricing efficiency, but why... ?

Who is leveraged?

- Who is likely to use margin trading in China?
 - Informed participants?
 - Speculators?
- If speculators, do we really see more information?
- Potential additional channel: Gamblers
- If gamblers, firms may be rewarded for taking on more risk...

Why more RnD and CAPEX?



Impact for Emerging Markets

- Should we encourage India to do the same?
- Depends. If we believe more RnD and CAPEX is good, then YES!
- If we are essentially encouraging higher leverage and more risky projects, depends on outcomes.
- What can we learn about the returns of firms who increase their capex during this period?
- Are they increasing value or just taking on more risky projects?

Minor Points

- Nice to have a graph of the staggered implementation (Stocks affected by date)
- If enough stocks exist make a balanced panel for each year, matched by market cap/turnover/industry
- If the CSRC chooses bigger firms who have higher access to debt etc in an environment where all firms are increasing capex/RnD, might need to use the cross-sectional variation in the level of margin trading to isolate the impact of the regulation. Alternatively, you could examine if the industry distribution is similar as this could otherwise skew your results.

Minor Points

- What happens to the returns of these stocks? Perhaps also to the volatility? Allowing margin buying (which exceeds short selling by 100x) should push prices up, and/or make them more volatile
- End up using a subset of the 900 odd stocks – better to use more if you can.
- P23 typo: “coefficients on $\times M/B$.”