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Short-selling ban and cross-sectoral contagion: Evidence from the UK (Conference Paper)

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Abstract

The UK's Financial Services Authority introduced a **ban** on the **short-selling** of specified financial-sector stocks in September 2008. The regulator's stated objectives were to protect market quality, stabilise the market for financial-sector stocks, and prevent **cross-sectoral contagion**. We analyse the price, market quality and **contagion** effects following the imposition of the **short-selling ban**, and its removal in January 2009. We report **evidence** consistent with a **short-lived** overpricing (underpricing) effect immediately after the **ban** was imposed (lifted). There is **evidence** of deterioration in market quality while the **ban** was in force. There is **evidence** of **cross-sectoral contagion** from the financial sector to the telecommunication sector immediately before the imposition of the **ban**, but there is no **contagion** for seven other non-financial sectors. There is no **evidence** of **contagion** while the **ban** was in force. In terms of preventing **cross-sectoral contagion**, the **ban** may be seen as a successful governance mechanism in the regulator's toolbox. © 2015 Macmillan Publishers Ltd.

Author keywords

 abnormal returns; **contagion**; market quality; regulation; **short-selling ban**

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