

PROPOSAL: INFORMATION, TRADING AND SHORT SALES CONSTRAINTS: THE CASE OF SECURITIES CLASS ACTION LAWSUITS

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In the presence of short sales constraints, how is negative information incorporated into prices? The impact of short selling on equity prices and equity market quality has been the subject of significant debate in the literature. The relative scarcity of settings in which there is opportunity for clean empirical identification has posed a challenge to researchers interested in quantifying the effect.

In 2005, the Securities and Exchange Commission introduced a pilot program, in which it selected nearly 1,000 stocks that would trade without certain short sales restrictions (price tests). These pilot stocks were selected from a group of 3,000 stocks in a broad index of US equities and were chosen to reflect a cross-section of the US equity market. This program provides a natural experiment in which it is possible to examine the impact of short sales constraints on the incorporation of negative information into prices.

We will focus on negative adverse events (in particular, securities class actions lawsuits) and will attempt to quantify how short sales constraints impact trading patterns and price movements. Securities class action lawsuits are appealing, as they are associated with large negative stock price movements and very heavy trading. They also often involve differentially informed market participants.

The RA will collect and organize both qualitative and quantitative data describing the events surrounding the securities class action lawsuits. This will include: stated reasons for the suits, lists of plaintiff's attorneys and outcomes (e.g., dismissal). We will meet on a regular basis to discuss both the database construction and literature on securities class action lawsuits and related issues. The RA will work on a literature review for this project, construct the dataset for statistical analysis, and provide a description of the data collection methodology. Should time (and background in statistical programming) permit, we will work together on an initial analysis of the data.

Given the focus of this project, the ideal candidate is one with interests in economics, finance and law. Knowledge of Excel and comfort with library and online databases (Factiva and Edgar will be particularly important) are a must. SAS or STATA programming skills are a plus, but not necessary.