



Lingnan 嶺南大學
University

DEPARTMENT OF ECONOMICS
INTERNAL PRESENTATION
(IN ENGLISH)

Foreign Exchange Rate Risk and Cross Listed Stock Price Disparity

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Abstract

A growing number of Chinese corporations have been listing their shares on foreign stock markets. Hong Kong Stock Exchange (HKEX) and New York Stock Exchange (NYSE) are their major targets. Taking China's exchange rate system reform as a unique event, I examine the price disparity between A-share and H-share (or ADR) using a sample of 28 Chinese companies listed in Shenzhen, Shanghai, Hong Kong, and New York. I conduct a panel-data investigation to examine the price disparity before and after the transition from the pegged to the managed floating exchange rate.

I have obtained two important findings in this study. First, RMB exchange rate reform in 2005 has significant effect on price disparity between A-shares and H-shares and also between A-share and ADR, revealing the fact that the more floating exchange rate reflects more realistic differential between home and foreign markets. This result is robust with different models. Second, I found that the expected appreciation of RMB would decrease A-share premium after exchange rate reform in sharp contrast with the results before the reform. In addition, exchange rate volatility after the reform also has a significant effect on price disparity between A-and H-share.

ALL ARE WELCOME

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