This study examines the impact of CEO overconfidence on the level of short-selling activity, as proxy by short interest ratio. This research employs 19,300 listed firm-year observations from the US market during the two decades between 1992–2017. After controlling firm and institutional characteristics, empirical results show that short interest is positively associated with CEO overconfidence. The findings further reveals that this positive correlation is more pronounced when the product market competition is high or when the dividend payout ratio is low. An overconfident CEO may adapt a higher dividend payout policy to reduce short interest. This study is the first of its kind that comprehensively investigate the correlation between CEO overconfidence and short interest. The findings serves as valuable references for corporate governors with insights on the overconfidence effect of management. Information on this overconfidence effect will likewise allow investors to better determine those firms that match with their financial directions and goals.

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