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Independent Research Proposal

On November 17th 2014, the Shanghai-Hong Kong Stock Connect program was officially launched, and it also declares the first time in China’s history opening its capital market to foreign retail investors. The program builds up the cross-boundary stock investment channel between the Shanghai Stock Exchange (SSE) and the Hong Kong Stock Exchange (HKSE).  Investors can now trade shares on the other market using their local brokers and clearing houses.

The cross-listed companies over HKSE and SSE have considerable price disparities historically. As China’s first attempt to open the capital market, the Shanghai-Hong Kong Stock Connect program now provides direct opportunities for the foreign investors to enter the Chinese capital market, and hence brings more liquidity that can potentially reduce the price disparities.

To test the effect of Shanghai-Hong Kong Stock Connect program on the price disparities among cross-listed companies, I will mainly use the financial data including stock prices of those companies and exchange rates between Chinese Yuan (CNY) and Hong Kong Dollar (HKD), which are drawn from Yahoo Finance and Oanda.com.

I will first calculate the price disparities of a selected time period, and use the event study method to compare the descriptive results of price disparities before and after the launch of the stock connect program. I will then use the time series analysis to further examine the relationships of real data and predicted data after the launch.

For this research, I expect to see that the price disparities decrease after the Shanghai – Hong Kong Stock Connect Program. But given the un-predictableness of Chinese Stock Market, the result can also be surprising. in this case, I will try to determine the cause of the change.