

FIN RESEARCH SEMINAR

Stock Market Attacks: Evidence from China

Dr. Xiaomeng Lu

Date: 1st November 2023

Time: 1:00pm-2:30pm (China Standard)

Location: BS G21

Tencent ID: 577-803-640

Link: <https://meeting.tencent.com/dm/kLBCrLxPqUiK>

BIOGRAPHY OF PRESENTER

Xiaomeng Lu is an associate professor of finance at Fanhai International School of Finance in Fudan University. Prior to joining FISF in 2021, she was an assistant professor of finance at Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao Tong University. She received her Ph.D. in Economics from Cornell University. She has a B.A. degree in Economics and a B.S. degree in Statistics from Peking University.

Her research fields include empirical asset pricing, behavioral finance, FinTech, and household finance. She is also interested in topics related to the Chinese financial market. She has published research papers in top journals such as Journal of Financial Economics, Journal of Monetary Economics, Management Science, and Journal of Housing Economics.

ABSTRACT:

In existing behavioral finance literature on stock mispricing, rational investors largely play a passive role in tolerating mispricing due to limits to arbitrage. In this paper, we show that rational speculators sometimes proactively and intentionally create mispricing by driving up stock prices away from their fundamental values through synchronized attacks with explosive trading volumes. The inflated stock price is subsequently supported by new rounds of irrational buyers who are subject to extrapolation bias and by existing stockholders who are reluctant to sell due to the disposition effect. This paper develops a simple model to illustrate how bubble-creating attacks can succeed in equilibrium under certain limits-to-arbitrage conditions, and provides consistent empirical evidence in the Chinese stock market using investors' trading data from a large brokerage company in China.