

> Thursday, May 11th, 2023

12:00 - 13:30

FINANCE RESEARCH SEMINAR

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EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY



ABSTRACT

## **The Index Effect: Evidence from the Option Market By Chardin Wese Simen (University of Liverpool)**

Equity options react significantly to S&P 500 index inclusions news. We document a significant and temporary increase in call option trading volume shortly after the news. On a placebo- and risk-adjusted basis, the 1-day response of the delta-hedged call options is positive (0.90%) and significant. Revisions in the implied volatility account for 42% of this effect. The announcement response is stronger for options that provide more leverage and reverses over time. The delta-hedged put options react in a similar manner. Our results are consistent with a demand-based option pricing theory.