

Resale Options and Stock Prices

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Abstract

This study tests the resale option hypothesis proposed by Scheinkman and Xiong (2003), using stocks traded on the Taiwan Stock Exchange and found that resale option values are positively related to dispersion of analysts' forecasts after controlling institutional ownership. The resale option hypothesis is also supported by the dynamic relationship between differences of opinion and resale option value, and positive association between resale option value and volatility of differences of opinion. This study confirms that the interaction between differences of opinion and short-sale constraints plays a key role in determining the magnitude of resale option value and provides an explanation of negative abnormal returns of high differences of opinion stocks that are most difficult to sell short, found by Boehme et al. (2006) and Berkman et al (2009).

Keywords: resale options, difference of opinion, short-sale constraints