







ban short-sales? introduce tobin tax?

albert j menkveld

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markets needs to be **liquid** in order to fulfill these roles

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friedman (1953) challenged (shortened quote)

*speculation is destabilizing is **equivalent** to saying that speculators lose money, since speculation can be destabilizing only if speculators sell when the currency is low in price and buy when it is high*

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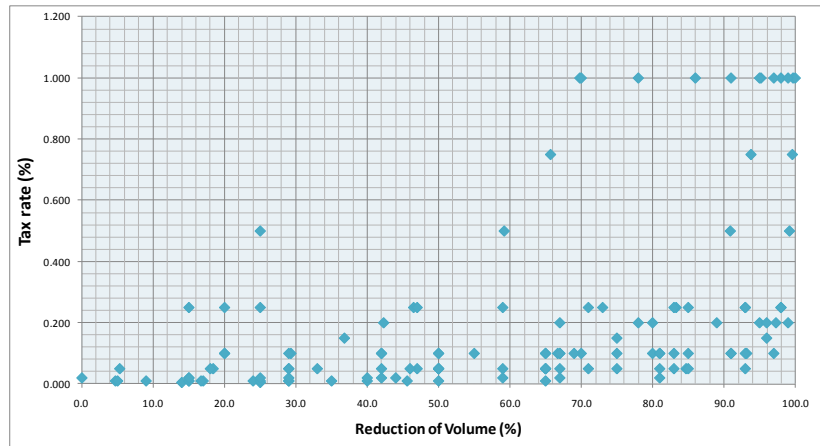
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tobin tax does not strike me as a good idea ex-ante

introduce tobin tax? evidence

does volume respond to tobin tax?

mcculloch and pacillo (2010) review 26 reports which **assume** an elasticity



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- ▶ direct: no effect on volatility for u.k. (saporta and kan (1997)) but weakly lowered volatility in sweden (umlauf (1993))

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daily u.s. equity returns 1994-2005: $\frac{\sigma^2(s)}{\sigma^2(w)}$ is 46%!

(hendershott and menkveld (efa 2010))

ban short-sales?

how about short-sales, will that reduce 'harmful' speculation?

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yesterday: beber and pagano (2010), comerton-forde and putnins (2010), and clifton and michayluk (2010)

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- ▶ slowed down price discovery
- ▶ decreased liquidity, in particular for small-caps
- ▶ “failed to support stock prices, except possibly for u.s. stocks”

conclusion

“no!”

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