The dynamic relation between return and institutional and individual trades

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ABSTRACT

This study investigates the daily dynamic relations between returns and institutional and individual trades in the Taiwan Stock Exchange(TSE) and Over-The-Counter market(OTC). Further, we test Granger-causality between institutional and individual trades at a portfolio level. The empirical results in price-volume relationship are listed as follows. First, returns in both markets lead the trading volume. Second, the implications of these results are consistent with the noise trader model proposed by Delong et al. (1990). Third, the magnitude of the response function of market returns to shocks from total trading volume and institutional imbalance is different, especially in short time horizons. As for the interactions between individual and institutional trading, we find that market returns have more predictive power for individual trading than that for institutional trading and the response of individual trading to return shocks is much stronger than that of institutional trading. Second, institutional trading has more predictive power for market returns. That is, the impact of institutional trading on market returns is stronger than individual trading. Third, in consistent with the hypotheses we proposed, there is bi-directional feedback effect between institutional trading and individual trading. Moreover, the response of institutional trading to its own shocks indicates strong autocorrelations in TSE market ；the response of individual trading to its own shocks indicates strong autocorrelations in OTC market Finally, we divide our sample into five portfolios based on firm size and test the causality relations between institutional and individual trading volumes. We find that the relations between institutional trading and markets returns vary with the size quintiles. On the other hand, the relations between individual trading and market returns also depend on the size quintiles.

Keywords : price-volume relationship、the trading behavior of investor、granger causality、impulse response function

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