

# The Impact of the Qualified Foreign Institutional Investor on the China Stock Market

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## ABSTRACT

The aim of this paper is to analyze the influence of the Qualified Foreign Institutional Investors (QFII) scheme announcement on the Chinese A- and B- share markets. The investigation period covers 161 daily observations for each stock index price series which was from 140 days prior to the announcement to 20 days after the announcement. First, we examine the abnormal trading behavior (abnormal returns and abnormal trading volumes) surrounding the announcement day via event study with GARCH (Generalized Autoregressive Conditional Heteroskedasticity) process. We find that the announcement does cause a rapid drop on stock prices and trading volumes on both stock markets. It is obvious that the abnormal return in the SHA was influenced by the QFII scheme most, meanwhile the China stock market exhibit a sustained decline in the abnormal trading volume. Moreover, we explore cross-sectional variation to examine the relationship between firm ' s properties and abnormal trading behaviors. The results of cross-sectional variation reveal that the number of board members, shareholding ratio of block shareholder, market capitalization of firm equity and SOEs are positive related to the abnormal trading behavior. It may be worth pointing out that the stock listing in Shanghai stock market and A-share markets exhibit a negative relationship with abnormal trading behavior. The most likely explanation might be that the A-share stocks might be overvalued after the opening of the B-share market. Overall, the China stock market experienced a huge reduction after the introduction of the QFII scheme. That is to say, to investors who concentrate on the China stock market, they should pay attention to the policy reform by the Chinese government. At the same time, they should also try to realize what firm ' s properties might influence the stock return. In this case, the investors can reduce the risk from investment, especially invest in emerging markets.

Keywords : Qualified Foreign Institutional Investors(QFII) ; China Stock Market ; Event study ; Generalized Autoregressive Conditional Heteroskedasticity(GARCH)

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