



**Universität  
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# **The Effects of the temporary Short Selling Ban during the Financial Crisis on Liquidity**

**- An investigation on the basis of financial stocks in Switzerland**

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Bachelor thesis

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## **Abstract**

In October 2008, the Swiss Federal Banking Commission and the SWX Europe imposed a temporary short selling prohibition on seven Swiss SMI stocks due to the financial crisis in 2008. In this paper, the effects of the short selling ban on liquidity in Switzerland will be investigated by means of panel data techniques, using various liquidity measures, e.g., turnover, volume, bid-ask spread and number of trades.

In a first step, I compare banned stocks to a control group to identify the effects of each liquidity measure during the ban period. I find a greater increase in spreads in the banned stocks compared with the control stocks. Volume, trades and turnover significantly decreased for banned stocks during the ban period and these liquidity measures increased for the control stocks. Thus, a statistically significant decrease in liquidity occurred in banned stocks after the prohibition was imposed.

Moreover, using regression analyses, I find that the deterioration in liquidity was independent of any market changes. The model also shows that the liquidity in banned stocks was lower than in non-banned stocks.