



## Is stock price rounded for economic reasons in the Chinese markets?

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### Abstract

This paper investigates whether trading and quoting prices are rounded for both economic and cultural reasons on the Shanghai and Shenzhen Stock Exchanges in China. We find that the close, bid, and ask prices of domestic shares are rounded to the nearest 10s and 5s for economic reasons, and the last decimal point of prices clusters on 8 for cultural reasons. The cross-sectional variation in 10-cent and 5-cent rounding can be well explained by price and inverse of square root of trading volume, whereas the clustering on 8 can hardly be ascribed to economic variables. The cross-sectional variation in execution costs can be ascribed to both economic variables and rounding frequencies. In addition, the prices of foreign shares traded on the Shenzhen Stock Exchange are clustered on 10s and 5s, but not on 8.

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### 1. Introduction

In stock trading practice, prices are often constrained to a limited set of observations by minimum tick size. Previous studies have documented that prices are frequently rounded to multiples of the minimum tick. Harris (1991) provides evidence on the rounding of quote and transaction prices for NYSE- and Amex-listed equities. Bessembinder (1994) reports evidence on the rounding of foreign exchange quotes. Ball, Torous, and Tschoegl (1985) document pervasive rounding in gold futures prices. As to the behavioral patterns of stocks prices in emerging markets, it is not quite clear whether rounding exists in the same manner as in developed markets and whether it exists for the same

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