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## The Impact of Option Listings: A Study of Casino and Gaming Stocks

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## **THE IMPACT OF OPTION LISTINGS: A STUDY OF CASINO AND GAMING STOCKS**

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### **ABSTRACT**

This study examines the impact of option listings on the common stock of 21 firms specializing in the casino and gaming industry. Our results show that, on average, there is a significant decrease in price during the five-day window which includes the announcement of the listing, the listing day, and a two-day period following the listing during which a liquid market is created in the option. However, we also show that stock prices recover subsequent to the listing window and that there is no evidence of a permanent change in stock price resulting from the listing. We find a significant decline in trading volume beginning two days prior to the listing, suggesting that the option market displaces trades of a significant number of shares following the listing. Finally, we find a significant decline in firm-specific risk following the listing, but do not find a change in systematic risk. This result suggests that while the introduction of option trading does not change the relationship between these stocks' returns and market returns, the additional outlet for speculators reduces volatility surrounding firm specific news, lowering the total risk of these stocks.