A re-examination of Chinese H-shares discount against A-shares

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This paper examines the price differences between Chinese A-shares and H-shares with 46 dual-listed firms on stock exchanges in both mainland and Hong Kong from December 2007 to May 2011. Our evidence suggests that the prices of H-shares are continually presented as discount to the counterpart A-shares. However, compared to the previous work in this area, the current level of H-share discounts has been largely alleviated. Based on both the FEM and GMM estimation on the panel sample, our model shows that the price discount of H-share can be mainly attributed to the liquidity theory, risk-aversion hypothesis and institutional factor. In addition, this paper also discovers that information transmits from H-share market to A-share market, not the reverse; and moreover, investors within different classes seem to hold a similar sentiment, implying that foreign investors incline to be risk-lover with a high risk-tolerance.