The Information Content of Net Buying Pressure: Evidence from TAIEX Options

ABSTRACT

This paper examines whether price changes in an option market result from informed trading, by looking at the effect of net buying pressure on the implied volatilities of option, using data of TAIEX options. I document that there is no exist of informed trade in TAIEX options. However, I find that TAIEX options follow the limit of arbitrage hypothesis, supply curve of option has a positive slope. There are negative relationship between the change in average implied volatility and the lagged change in average implied volatility and positive relationship between the change in average implied volatility and net buying pressure. Moreover, I also find that there are positive (negative) relationships between net buying pressures of call (put) options and TAIEX return for all moneyness categories which mean investor obviously buy call (put) options if the underlying asset is raised (fallen). However, there is no the prediction power of net buying pressure of the TAIEX options over the future TAIEX returns.