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Abstract

Based on province-level data on China's local institutional environment from 2008 to 2014, we explore the relationship between the local institutional environment and stock price crash risk. We find that a stronger local institutional environment curbs stock price crash risk. Furthermore, we explore the relationship between local institutional environment and stock price crash risk for state-owned versus privately owned enterprises. We find that a stronger local institutional environment is more likely to curb stock price crash risk in state-owned enterprises than in privately owned enterprises. Our results are robust to additional tests. These findings suggest that it is necessary to accelerate the progress of local marketization in China to ensure the development of the stock market and a strong economy.

Keywords: Local institutional environment  stock price crash risk  state-owned enterprises 
privately owned enterprises

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