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Shorting Restrictions: Revisiting the 1930s

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Abstract

Several events in the 1930s made shorting more difficult or impossible in the United States. In 1931, the NYSE banned shorting for two days and later prohibited shorting on a downtick. In 1932, brokers needed written authorization before lending a customer's shares, and the U.S. Senate released a list of the biggest short sellers. In 1938, the tick test was tightened. Short interest and securities lending data indicate that each event made shorting more difficult. Average returns associated with the events are significantly positive, consistent with disagreement models. Liquidity is also affected. Recent U.S. regulatory changes echo these earlier restrictions.

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