

The effect of listing switches from a new market to a main board

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Abstract

We examine whether firms switching listings from the Korean new market (KOSDAQ) to the main board (KOSPI) experienced an improvement in trading-related market quality sufficient to justify their switches. We focus on *market macrostructure* and use a difference-in-difference technique based on fixed-effects estimation. Contrary to expectations, we find that trading-related market quality mostly deteriorated or remained unchanged following the switch, and the deterioration became more pronounced after KOSDAQ and KOSPI were consolidated into KRX. Such switches produce a negative externality by weakening KOSDAQ and thereby impairing funding for new and innovative firms. Firms whose characteristics fit the new market should continue to be traded there. Policymakers should carefully monitor dynamic changes in the new market in order to support innovation and maintain a healthy market macrostructure.

Keywords: Listing switch; Market quality; Market macrostructure; Fixed-effects estimation; Difference-in-difference

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