

## **Option Trading, Information Asymmetry and Firm Innovativeness: Evidence from India**

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### **Abstract**

*Present study examines the effect of option listing and subsequent trading on the innovation in the context of publicly listed Indian firms. Innovation is defined in terms of input and output as R&D expense to sales ratio, and number of patents filed by a company, respectively. Multiple regression analysis is conducted to identify drivers of innovations. Measures of innovation are used as dependent variables, while dummy for option trading is taken as independent variable along with other firm level control variables. The study also examines the determinants of the option listing on individual stocks in India using binary-logistic regression. Out of total 208 sample firms, only 89 firms have stock option trading. Option trading firms are larger, older, marginally higher on research expenditures, widely cross listed, having higher institutional holding, marginally less leveraged, more liquid, less volatile, more profitable, and paying higher dividends in comparison to non-option trading firms. Firm age, financial leverage, dividend payout, and profitability affects internal R&D allocations for the sample firms. As far as firm's research output is concerned, firm leverage, institutional holding, option trading, and ESOP are the major determinants. Firm leverage adversely affects R&D input and R&D output alike. Dividend paying, large firms having higher institutional holdings are likely to attract stock option listing, while firms with high firm specific return variations are likely to have very low probability of option listing.*

**Key Words:** Stock Options, Firm Innovativeness, Information Asymmetry, Logit Regression.

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