

Faculti Summary

<https://faculti.net/pledgeability-and-asset-prices/>

This video discusses the concept of asset eligibility and its importance in financial markets, particularly in the context of borrowing against assets. It highlights how one asset may provide borrowing capabilities for investors while another similar asset may not. The author references research, particularly a study by Gallo and Peterson that explores price differences in assets based on their borrowing capabilities, termed "haircut."

The speaker presents a method to assess the impacts of changes in asset eligibility using a case study from the Chinese bond market, where they examine dual-listed corporate bonds traded in different markets with varying regulations. They analyze a specific policy change that restricted borrowing against certain bonds based on their credit ratings and assess how this change affected bond prices.

Using a difference-in-difference approach, the author explains how to quantify the effects of the policy shock on asset prices and determines that a rise in the haircut (or reduction in eligibility) from zero to one resulted in a significant drop in bond premiums. The results indicate a 30 to 40 basis point decrease in bond prices due to the loss of eligibility, providing insight into the cost of capital in China during that time.

Overall, the text emphasizes the importance of understanding asset eligibility and its implications for financial markets, as well as the need for further research in the rapidly developing Chinese bond market.