The Price of Sin in the Pacific-Basin

Robert B. Durand
SzeKee Koh*
Paul LiJian Tan

ABSTRACT

Hong and Kacperczyk (2009) argue that social norms against sin stocks influence investor behaviour and corporate financial policies. This paper examines “sin” stocks in seven Pacific-Basin markets: Australia, India, Japan, South Korea, Malaysia, New Zealand and Singapore. There is only limited support for Hong and Kacperczyk’s hypotheses of how social norms influence investment. Consideration of measurable cultural differences between the markets we study allows us to reconcile our findings with Hong and Kacperczyk. The evidence suggests the price of sin is a manifestation of groupthink.

JEL classification: G12, G15, M14

Keywords: asset pricing, corporate financial policy, behavioral finance, socially responsible investment, social norms, groupthink.

The authors are from the University of Western Australia, M250, 35 Stirling Highway, Crawley, Western Australia, 6009.
* Corresponding author: Phone + 61 8 6488 1816. Fax + 61 8 6488 1047. E-mail: szekee.koh@uwa.edu.au