

## ***A RESEARCH ON THE PRICING MECHANISM BETWEEN ETF OPTIONS AND SPOTS IN CHINESE MARKET***

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**Abstract:** We employ the bivariate Smooth-Transition VECM-GARCH (ST-VECM-GARCH) with a non-linear error-correction mechanism to test the price discovery and volatility spillover effect of the options markets in China. As the first cross-market option product in China, CSI 300 ETF options and the spots markets are investigated. We find the significant existence of a bilateral causality between the CSI 300 ETF options market and spots market, in which the CSI 300 ETF options market generally contributes more than the spots market in pricing efficiency and information transmission. Besides, the CSI 300 ETF options market in Shanghai shows a much more significant influence to the spots market than in Shenzhen. To verify this finding, we conduct further research to compare the CSI 300 ETF options between SSE and SZSE. The analysis yields that there exists a bilateral causal relationship across the markets, and the CSI 300 ETF options on SSE plays a stronger leadership role than the options on SZSE no matter in information transmission or price adjustment.