

MASTER'S THESIS

Socially Responsible Local Firms and Stock Market Participation: Evidence from the U.S. Household Survey

YU, Li

Date of Award:
2022

[Link to publication](#)

General rights

Copyright and intellectual property rights for the publications made accessible in HKBU Scholars are retained by the authors and/or other copyright owners. In addition to the restrictions prescribed by the Copyright Ordinance of Hong Kong, all users and readers must also observe the following terms of use:

- Users may download and print one copy of any publication from HKBU Scholars for the purpose of private study or research
- Users cannot further distribute the material or use it for any profit-making activity or commercial gain
- To share publications in HKBU Scholars with others, users are welcome to freely distribute the permanent URL assigned to the publication

Socially Responsible Local Firms and Stock Market Participation: Evidence from the U.S. Household Survey

ABSTRACT

In this study, I examine the relation between local firms' corporate social responsibility (CSR) performance and households' stock market participation. I hypothesize that the CSR performance of local firms is positively associated with households' stock market participation and that this result can be attributed to individual investors' increased confidence in the stock market. Using data from U.S. household surveys, I find that households are more likely to participate in the stock market and hold a larger proportion of their portfolios in stocks when local firms engage in more CSR activities. Cross-sectional analyses show that: i) the positive relation between local CSR and households' stock market participation is stronger for states in which firms receive greater media exposure; ii) relative to households in the Republican-leaning states, the positive relation is weaker for households in Democratic-leaning states; and iii) the relation tends to be stronger for households with a more highly educated and/or younger head, and wealthier households. Additional tests further show that the CSR performance of local firms has a significant and positive effect on individuals' stock market expectations. This finding is consistent with the argument that better CSR performance by local firms increases households' confidence in the stock market. In addition, I find that the positive relation between CSR and household stock market participation is mainly driven by firms' CSR efforts in relation to diversity engagement and environmental performance. Overall, my findings suggest that local firms' CSR performance plays an important role in enhancing individual investors' confidence in the stock market, thereby influencing household stock market participation.

Keywords: CSR, Household Stock Market Participation, Confidence