



The Dark Side of Circuit Breakers

Chen, Hui, Anton Petukhov, **Jiang Wang**, and Hao Xing

Journal of Finance, 2024

Abstract

Market-wide circuit breakers are trading halts aimed at stabilizing the market during dramatic price declines. Using an intertemporal equilibrium model, we show that a circuit breaker significantly alters market dynamics and affects investor welfare. As the market approaches the circuit breaker, price volatility rises drastically, accelerating the chance of triggering the circuit breaker—the so-called “magnet effect,” returns exhibit increasing negative skewness, and trading activity spikes up. Our empirical analysis supports the model's predictions. Circuit breakers can affect overall welfare negatively or positively, depending on the relative significance of investors' trading motives for risk sharing versus irrational speculation.