ABSTRACT

Liquidity is defined as the ability to quickly buy or sell large volumes of an asset with minimal price impact. Liquidity is the lifeblood of stock markets. It has given rise to important theoretical and empirical research because of its wide implications for traders, regulators, stock exchanges and the firms. However, there is no general consensus over its measurement, determinants; and its role in asset pricing.

India is one of the largest emerging markets that implements order driven trading systems. The Study is limited to Midcap stocks which are highly attractive for investment, and having potential for becoming Large-Cap. Using intraday data of Midcap stocks, the Study examine the intraday liquidity patterns, its intraday determinants and concept of commonality in Indian context. The Study also examines the pricing of liquidity risks in the Indian market, using data from, 2012-2015.

Intraday patterns, on the spread based measures exhibits U-shaped, squared-returns exhibits inverted L-shaped and volume based measures are found increasing trends, just before trading close, afterwards they falls sharply. Trading parameters, macro-economic and international variables are found to be determinants of intraday liquidity. Market-wide and Industry-wide commonality are found to be significant and more pervasive than observed in other markets. The Study find strong evidence, that the co-variance between (i) market illiquidity and stock illiquidity, (ii) market illiquidity and stock returns, (iii) market returns and stock illiquidity, (iv) stock returns and stock illiquidity; are priced in expected stock returns.

The results of the Study can be used by traders in devising strategies, exchanges in designing trading platforms, fund managers in engineering financial instruments and firms in formulating corporate policies.

Keywords: Liquidity, NSE, Indian Stock Market, Liquidity Patterns, Liquidity Determinants, Commonality, LCAPM, Asset pricing