

Is liquidity risk priced in partially segmented markets?

7th Emerging Markets Conference Discussion

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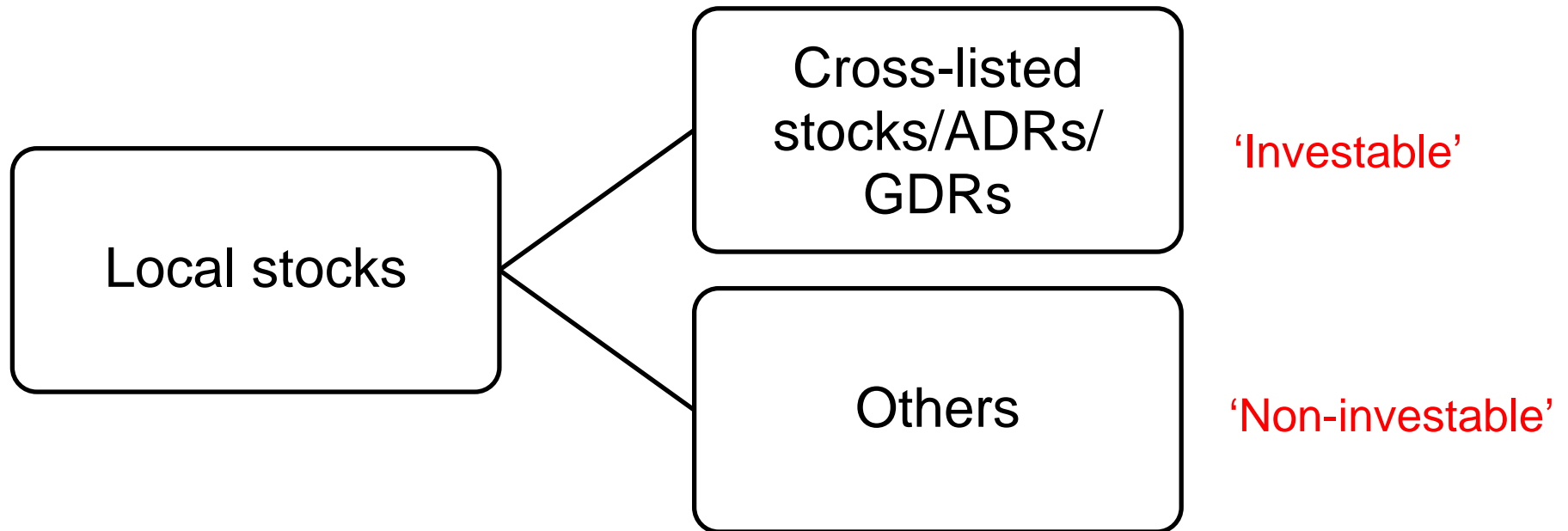
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1. Develops a new liquidity international asset pricing model to capture the impact of liquidity costs and market segmentation on asset pricing
2. Shows theoretically and empirically that 'non-investable' stocks command an additional local and liquidity risk premium

Alternative measures of 'investable' vs 'non-investable'



Alternative measures of 'investable' vs 'non-investable'

- › Table 1: There is a very high percentage of 'non-investable' stocks for most markets
 - Further testing to see whether the current classification scheme provides a reasonable approximation
- › There are many stocks that are not cross-listed but could still be 'investable'
- › Likewise, stocks may be 'investable' but are in practice 'non-investable' (e.g., barriers to foreign investment)
- › Can measures of law and order/political risk/corporate governance be incorporated into the analysis?

Alternative measures of transaction costs

- › “According to the bid-ask spread measure, India is on average the least liquid, while Chile is the most liquid” (p. 20)
 - Bombay Stock Exchange and National Stock Exchange of India are just outside the top 10 stock exchanges around the world by market capitalization
- › Robustness test using Amihud illiquidity measures and bid-ask spreads for countries where data is available.
- › Other low-frequency illiquidity measures such as the proportion of zero daily return days.

Can we further investigate crisis periods?

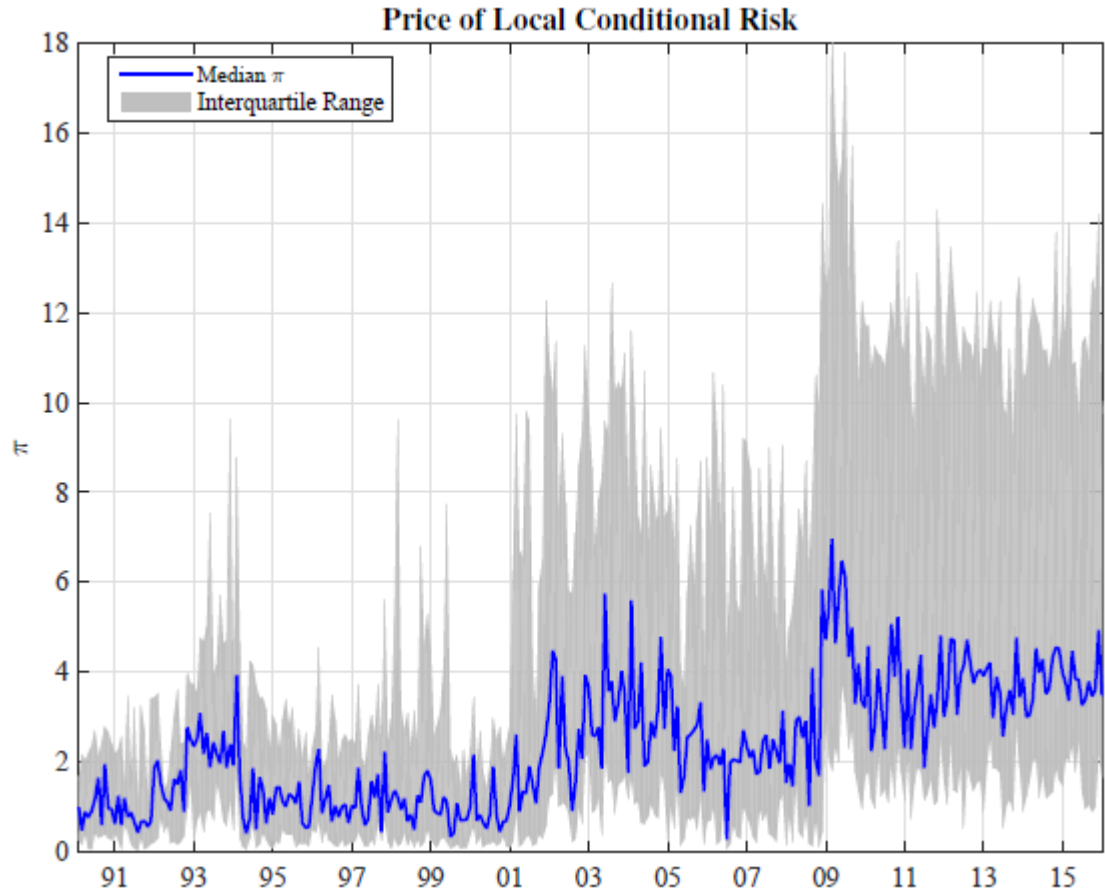
- › The paper makes general statements about how the price of risk fluctuates through time.
 - E.g., “They tend to increase during economic recessions and financial crises” (p. 22)

- › Can these statements be tested more formally?

- › Further, do certain events affect the price of risk more for specific markets?
 - E.g., Does the Asian financial crisis have a larger effect on the price of risk in East Asian markets?



Can we further investigate crisis periods?



- › More analysis into the cross-sectional variations in the price of risk across markets.

- › Do more integrated markets have a lower price of risk?
 - E.g., Carrieri, Chaieb and Errunza (2016)

- › Repeat experiment with a sample of developed markets using same definitions of investable/non-investable stocks and transaction cost measures.
 - We expect the price of risk to be lower for these markets