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Stock liquidity premium on the Polish capital market

Abstract of the doctoral thesis

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1. Justification for the choice of the thesis subject

Liquidity, next to expected return and risk, is an important characteristic of each security. The first study, in which the model of securities liquidity has been created, was the paper by A. Kyle from 1985. One year later, with their seminal work, Y. Amihud and H. Mendelson began the studies on the relationship between the level of liquidity and stock return expected by the investors. They proved that investors require higher returns from the stocks with higher bid-ask spread (lower liquidity) which indicates the existence of liquidity premium. In the literature there is a number of different models serving the empirical investigation of the relationship between stock liquidity and returns. Those models were tested mainly on the US stock markets. The same model applied for the same data on stocks listed on the same market can give different results, which is the effect of applying different liquidity measures. Thus, to obtain high quality of a study on the impact of liquidity on stock returns, it is crucial to carefully choose the liquidity measure and the estimated model.

Most of empirical researches are focused on indicating the unconditional, i.e. constant in time, liquidity premium. However, as pointed out by some authors (e.g. Jensen and Moorman, 2010; Amihud, 2014; Hagströmer, Hansson and Nilsson, 2013; Ben-Raphael, Kadan and Wohl, 2015) the amount of liquidity premium is time-varying. There is still a lack of comprehensive answer to the question about the factors determining the amount of such a premium. This problem is mostly highlighted by Holden, Jacobsen and Subrahmanyam (2014, p. 349) who point out that time-variance of liquidity premium requires further analyses. In particular, the most important is the indication of factors determining its amount, for example whether it increases during crises or if it varies across the business cycle.

Warsaw Stock Exchange differs significantly from the US stock markets in some aspects. This is a premise that the results of the studies carried out on US and other developed stock markets cannot be expanded on the WSE and other emerging markets. Those differences are among others:

- lower level of development,
- higher information asymmetry,
- lower level of liquidity,
- higher volatility,
- higher ownership concentrations,
- different market organisation,
- differences in the institutional and economic environment,
- differences in capital supply systems.

The above-mentioned differences between Polish and US stock markets may lead to a situation when the results of the studies carried out on the Polish stock market will differ from the respective results of the studies carried out on the US stock markets. On the one side, as the WSE is less developed and less liquid market, stock liquidity should influence the stock returns more significantly than on US ones. From the other side, the fact that the WSE is an order-driven market (while US markets are hybrid quote-driven ones) should attenuate this relationship. Equally important, studies carried out so far do not allow to indicate clearly if there is a stock liquidity premium on the Polish capital market. Previous researches are scarce and their results varied. Thus, it can be stated that there is a research gap in identifying the impact of stock liquidity on returns on the Polish capital market. The factors determining the amount of the stock liquidity premium are also not examined yet, both in relation to the Polish, as well as other stock markets, both emerging and developed.

2. The objectives of the dissertation and research hypotheses

The main objective of the dissertation is to answer the question whether there exists stock liquidity premium on the Polish capital market, and if so, whether this premium increases during the periods of market downturn. To accomplish the main goal, the detailed objectives, both theoretical and empirical, have been accepted:

1. systemizing the definition of securities' liquidity,
2. systemizing the existing liquidity measures,
3. the assessment of the usefulness of existing liquidity measures for studies on the Warsaw Stock Exchange,