

THE STOCK MARKET LIQUIDITY AND MACRO FACTORS:

A THAILAND PERSPECTIVE

ABSTRACT

Financial markets are greatly driven by information. One of the instruments that have been in increasing interest is the stock market liquidity. This paper contributes to the macrostructure liquidity literature by analyzing the relationship between stock market liquidity for 145 Thai firms listed on the Stock Exchange of Thailand and the linkage to the macro economy. Panel regressions analysis, VAR, and Granger Causality are performed for the period of 1997-2010. Three liquidity measures, which are the Amihud illiquidity estimate, the LOT measurement, and the turnover ratio are employed as proxies for liquidity in this paper. In the recent financial crisis, we have seen that liquidity in the stock market drying up as a precursor to the crisis in the real economy. We show such effects are not new, in fact we can find a strong relation between them. Therefore, as market illiquidity increases the real economy would be expected to contract over the next quarter. Overall, our results provide a new explanation for the observed commonality in liquidity.