



# **BOND LIQUIDITY PREMIUM: EVIDENCE FROM THAILAND**

**Kawin Luthanachol**  
ID 5502042111

Master of Science Program in Finance (International Program)  
Faculty of Commerce and Accountancy, Thammasat University, Bangkok, Thailand  
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## **ABSTRACT**

This research aims to quantify the liquidity premium in Thai government bond yield. The government bond's liquidity premium was found by differencing the yield of loan bond (LB) with highest accumulated trading volume and the yield of LB with lowest accumulated trading volume. The state agency bond's liquidity premium was found by differencing the yield of LB with highest accumulated trading volume and the yield of Bank of Thailand bond (BOT). Applying the state space model proposed by Ejsing, Grothe, and Grothe (2012) to the Thai bond market environment, the time-varying liquidity premium for individual term to maturity was provided. For every term to maturity, the implied liquidity premium is quite constant through time. The finding also suggests that Thai government bond's liquidity premium is lower than that of state agency bond on average.

Key word: Bond, Fixed Income, Liquidity, Kalman filter, State Space model