

Independent Study Title	LIQUIDITY OF INDEX INCLUSION IN ASEAN
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ABSTRACT

The implementation of ASEAN Linkage and ASEAN STARS index provides unique opportunity to study the effect of index inclusion on stocks that are not easily accessible prior to the effective inclusion. The aim of this research is to investigate the index inclusion effect of ASEAN STARS index on stock liquidity. This research investigates both short term (2.5 months) and long term (one year) changes of stock liquidity up on index inclusion. A significant improvement of transaction cost during the two months period following index inclusion was observed. Tests of other long term liquidity changes found significant improvement in price impact (illiquidity decreased by 17.43 percent), volume (increased by 29.89 percent), and free float adjusted turnover (increased by 6.82 percent) during one year period after index inclusion and ASEAN Linkage implementation.

Keywords: Liquidity, Index inclusion, ASEAN