



Cyprus University of Technology
Department of Commerce, Finance and Shipping

Seminar Talk
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The Diminishing Liquidity Premium

by

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Abstract

Stock liquidity has improved over the recent four decades. This improvement was accompanied by a dramatic increase in trading activity. The net effect on the liquidity premium is ambiguous. We show that the characteristic liquidity premium of U.S. stocks has significantly declined over the past four decades. In recent time periods characteristic liquidity is significantly priced only for the smallest common stocks. This decline stems from an improvement in liquidity, and from a lower sensitivity of expected returns to liquidity. By contrast, systematic liquidity has not been trending down, and is still significantly priced primarily among NASDAQ stocks.

*** Joint work with Azi Ben-Rephael and Ohad Kadan.**