Is liquidity risk priced in partially segmented markets?

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1. Develops a new liquidity international asset pricing model to capture the impact of liquidity costs and market segmentation on asset pricing

2. Shows theoretically and empirically that ‘non-investable’ stocks command an additional local and liquidity risk premium
Alternative measures of ‘investable’ vs ‘non-investable’

- Local stocks
- Cross-listed stocks/ADRs/GDRs
- Others

‘Investable’
‘Non-investable’
Alternative measures of ‘investable’ vs ‘non-investable’

› Table 1: There is a very high percentage of ‘non-investable’ stocks for most markets
  - Further testing to see whether the current classification scheme provides a reasonable approximation

› There are many stocks that are not cross-listed but could still be ‘investable’

› Likewise, stocks may be ‘investable’ but are in practice ‘non-investable’ (e.g., barriers to foreign investment)

› Can measures of law and order/political risk/corporate governance be incorporated into the analysis?
Alternative measures of transaction costs

“According to the bid-ask spread measure, India is on average the least liquid, while Chile is the most liquid” (p. 20)

- Bombay Stock Exchange and National Stock Exchange of India are just outside the top 10 stock exchanges around the world by market capitalization

Robustness test using Amihud illiquidity measures and bid-ask spreads for countries where data is available.

Other low-frequency illiquidity measures such as the proportion of zero daily return days.
Can we further investigate crisis periods?

› The paper makes general statements about how the price of risk fluctuates through time.
  - E.g., “They tend to increase during economic recessions and financial crises” (p. 22)

› Can these statements be tested more formally?

› Further, do certain events affect the price of risk more for specific markets?
  - E.g., Does the Asian financial crisis have a larger effect on the price of risk in East Asian markets?
Can we further investigate crisis periods?
More analysis into the cross-sectional variations in the price of risk across markets.

Do more integrated markets have a lower price of risk?
- E.g., Carrieri, Chaieb and Errunza (2016)

Repeat experiment with a sample of developed markets using same definitions of investable/non-investable stocks and transaction cost measures.
- We expect the price of risk to be lower for these markets