ABSTRACT

Liquidity refers to the ability to trade large volumes of stocks quickly at low cost, as and when required. This attribute covers a wide range of market dimensions including size, time and value. Studies have recognized abundant evidence that liquidity is one of the most instrumental properties of an efficient financial market.

Although studies on various elements of liquidity have been well documented, the precise sources of liquidity variation are largely unknown. Moreover, many studies have identified that variation of market wide liquidity significantly drives the variation of individual stock liquidity, or known as commonality in liquidity. The existing studies lack of empirical evidence of factors affecting liquidity at both at market level and individual firm level, as well as the existence and the causes of commonality in liquidity.

The empirical and theoretical review demonstrated that liquidity variation in the market level differs from liquidity variation in the individual stock level. The market level liquidity is affected by the systemic variables which induce the variety of market liquidity to the whole stocks in the market. Meanwhile, the individual stock liquidity is influenced by the firm unique variables.

The study will estimates the relationships between liquidity proxies and the potential determinant variables based on a time series estimation techniques (ARCH model). Based on the sample observation from the Indonesian equity market, research question that arises in this issue is: what are the determinant factors affecting the liquidity at the market level and at the firm level?