

VU Research Portal

Essays on Empirical Market Microstructure

Wang, T.

2012

document version

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

citation for published version (APA)

Wang, T. (2012). *Essays on Empirical Market Microstructure*. Tinbergen Institute.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:

vuresearchportal.ub@vu.nl



Liquidity is the ability of trading an asset quickly, at low cost and without causing significant movement in the market price. This dissertation first looks at liquidity and asset prices with a focus on liquidity leak events and downside liquidity. Liquidity might not be a worry to investors in normal market conditions. However, it does become a first-order concern when a security hits an illiquid state and is trapped there for a long time. Such events, referred to as liquidity leaks, are measured by liquileak probability using a Markov regime-switching model. Results show that liquileak probability commands an annual premium of 1.33%. Moreover, while liquidity level and risk are important to investors in general, they can be particularly important in a declining market. When market downside and upside are differentiated explicitly, evidence shows that downside illiquidity level has dominant explanatory power for the cross sectional returns. Second, the dissertation looks at liquidity and institutional design by examining the value of designated market makers (DMMs). DMMs commit to provide a liquidity supply at all time in the market and are usually hired by small-caps. It is shown that DMMs improve liquidity level, reduce liquidity risk, generate abnormal returns, play as a 'supplier of last resort' and reduce pricing errors.

Essays on Empirical Market Microstructure
Ting Wang

Ting Wang

Essays on Empirical Market Microstructure

