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Firm size, ownership structure, and systematic liquidity risk: The case of an emerging market^{☆,☆☆}

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Abstract

Previous studies support the hypothesis that institutional ownership leads to an enhanced systematic liquidity risk by increasing the commonality in liquidity. By using a proprietary database of all incoming orders and ownership structure in an emerging stock market, we show that institutional ownership leads to an increase in commonality in liquidity for mid-to-large cap firms; however, only individual ownership can lead to such an increase for small cap firms, revealing a new source of systematic liquidity risk for a specific group of firms. We also reveal that commonality decreases with the increasing number of investors (for both individual and institutional) at any firm size level; suggesting that as the investor base gets larger, views of market participants become more heterogeneous, which provides an alternative way to decrease the systematic liquidity risk.

Keywords: Commonality in liquidity, systematic liquidity risk, order book, firm size, ownership structure

JEL: D23, D82, G12, G14, G23

[☆]A part of this worked was completed while the author was working at Borsa Istanbul.

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