Do Liquidity Measures Measure Liquidity?

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Abstract
Liquidity plays an increasingly important role in empirical asset pricing, market efficiency, and corporate finance. Identifying high quality proxies for liquidity based on daily data only (not intraday data) would permit liquidity to be studied over relatively long timeframes and across many countries. We introduce new liquidity measures. We run horseraces of both monthly and annual liquidity measures. Our benchmarks are effective spread, realized spread, and price impact based on both TAQ and Rule 605 data, including the decimals eta. We identify the best proxies in each case and find the new liquidity measures win the majority of horseraces.

Presenter: Ruslan Goyenko