

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

125899

MBS (Finance) Thesis

**Cross-sectional analysis of pricing efficiency,
liquidity, and information asymmetry**

Student: Xin Gao

ID: 04121198

Supervisor: Dr Nuttawat Visaltanachoti

Date: 7 December, 2009

Table of Contents

Acknowledgements.....	2
Abstract.....	3
1. Introduction.....	4
2. Literature Review.....	9
3. Data.....	15
4. Pricing Efficiency	18
5. Liquidity and Information Asymmetry	22
6. Cross-sectional Regression Between Pricing Efficiency and Liquidity.....	33
7. Limitations	37
8. Conclusion	38
Appendices.....	39
References.....	81

Acknowledgements

I am thankful to my supervisor, Dr Nuttawat Visaltanachoti, for great encouragement, with constructive suggestions and comments. I could not have completed this study without his great help. I would also like to thank Associate Professor John Pinfold, Professor Ben Jacobsen, Dr Liping Zou, and Dr Mei Qiu for their valuable suggestions. All errors are my own responsibility.

Contact information:

Tel: +64-9-4190715

E-mail address: x.g.gao@hotmail.com

Abstract

This paper tests the relation between pricing efficiency and liquidity, with and without, the effects of asymmetric information. First, we show that informed trading is negatively related to liquidity. This result is consistent with previous researches, which find that informed trading reduces liquidity. Second, this report explores the direct relation between price efficiency and liquidity by applying a cross-sectional regression. The result indicates that liquidity associated with asymmetric information effects enhances pricing efficiency. The cross-sectional relation between relative informational efficiency and liquidity combined with informed trading is significantly positive. Third, we find that pure liquidity trading also contributes to price informativeness. The positive relation between relative informational efficiency and liquidity unrelated to asymmetric information cannot be rejected.