

DESCRIPTION FOR THE GENERAL PUBLIC (IN ENGLISH)

Liquidity of instruments quoted on the financial markets is one of the most important issues in modern finance. In the literature it is shown that it affects the process of pricing financial instruments, portfolio allocation as well as risk management. It is a significant determinant of market quality. Poor liquidity prevents investors from investing in the markets; they will be not willing to buy new shares having in mind potential problems with selling them back at acceptable price. It also bothers market animators who are liquidity providers on the market and are responsible for keeping trade on an expected level. Therefore liquidity is important both for investors and for regulators.

Liquidity is unobservable and approximated or estimated with many proxies. It is an elusive concept, partly because it encompasses many transaction properties observed on the markets. The liquidity studies are performed on the basis of different information sets, with different data frequency and on different markets. There is no single answer, which measure is the best approximation for the observed transaction costs. The proposed studies is aimed to compare liquidity measures of stocks quoted on the Warsaw Stock Exchange. We consider measures calculated on the basis of daily data and more frequently observed intradaily data and find optimal measures. We also examine the relations between the characteristics of the transaction process, such as volatility or volume, and investigate their impact on the liquidity on the Polish capital market.

The proposed project allows to answer the question how important are the intraday data in liquidity measuring. They show what kind of daily data may be useful when measuring liquidity. The proxy calculated from the generally available data will be examined. It will fill the gap in the literature and show how liquidity dynamics are related to changes in prices, volumes, volatility and therefore will allow to better describe price formation process. The project could therefore help to provide intuition, how different dimensions of liquidity behave around different market events. It also considers the relationship between liquidity and volatility. The results are interesting not only from academics point of view but are important also for practitioners of the stock market.