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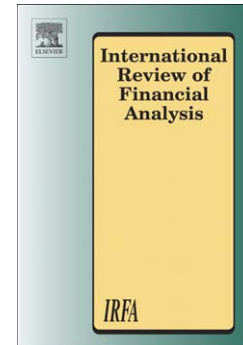
The Effect of Financial Transaction Tax on Market Liquidity and Volatility:
An Italian Perspective

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The Effect of Financial Transaction Tax on Market Liquidity and Volatility: An Italian Perspective

by

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Abstract

This paper investigates the effect of the Financial Transaction Tax announcement, 29 December 2012, and the tax introduction, 1 March 2013, on the liquidity and volatility of the affected Italian stocks. The paper examines two-month windows of daily observations before and after each event. To assess the change in liquidity in pre- and post-event samples, the Mann-Whitney U-test for the equality of medians is employed, while for the assessment of volatility change, we apply the Levene test and its modifications for homogeneity of variances. The paper documents that the announcement of the tax positively affects market liquidity, whereas there is a dramatic decrease in liquidity as a result of tax introduction. It implies that the trading costs of the affected equities decrease after the tax announcement and significantly increase after the tax introduction events. As for volatility, the results mainly indicate no statistically significant changes between the pre- and post-tax announcement and introduction events.

JEL Categories: H250, G280, G180.

Keywords: Financial transaction tax, Volatility, Liquidity, Market capitalisation.

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