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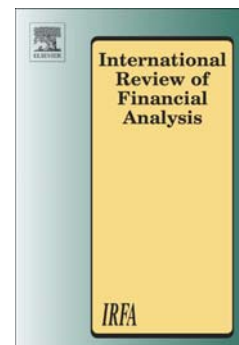
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The Impact of the French Securities Transaction Tax on Market Liquidity and Volatility[◇]

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Abstract: In this paper, we assess the impact of the securities transaction tax (STT) introduced in France in 2012 on market liquidity and volatility. To identify causality, we rely on a distinctive design of the tax, which is imposed on large French firms only, all listed on Euronext. This provides two reliable control groups (smaller French firms and foreign firms listed on Euronext) and allows us to use a difference-in-difference approach in order to isolate the impact of the tax from the other economic changes that have occurred simultaneously. We find that the STT has reduced stock trading, but we find no significant effect on theoretically based measures of liquidity, such as price impact, and no significant effect on volatility. The results are robust whether we rely on different control groups (German stocks listed on the Deutsche Börse), different datasets (firm-level or aggregated data), different periods (from one to six months), or different methodologies (propensity score matching, regression discontinuity design).

Keywords: Financial transaction tax, Securities transaction tax, Tobin tax, Volatility, Liquidity, Financial regulation, Euronext.

JEL Classification: G21, H25.

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