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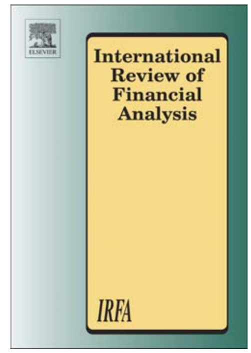

On the stock market liquidity and the business cycle: A multi country approach

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On the stock market liquidity and the business cycle: a multi country approach

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Abstract

We provide original results on national and global stock market liquidity and its interaction with macro-economic variables for six of the G7 economies, namely: Canada, France, Germany, Italy, Japan and UK, building on the methodology and on the US evidence by Naes et al. (2011). Using a number of additional tests, we find that different markets do not behave in a uniform manner. National liquidity has diminished ability in Granger causing macroeconomic variables for our sample countries, and in additional tests the same holds for an extended US sample, contrary to Naes et al. As regards global liquidity there is a two-way causality with macroeconomic indicators for the six nations in our sample while for the US there is no causality in either direction. We also show that there is no superior information in small firm liquidity in Granger causing macroeconomic variables even for the US in contrast to the sample period employed by Naes et al. implying an unstable relationship over time for the US.

Keywords: Market Liquidity; Real Economy; Economic Indicators; Granger Causality, Panel Data, Dumitrescu Hurlin,

JEL: G15, F37, F44, F47

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