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How Does Short Selling Affect Liquidity in Financial Markets?

Benjamin M. Blau , Ryan J. Whitby

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**Highlights**

- For a small-cap portfolio of stocks, changes in short selling Granger-cause changes in liquidity.
- Bid-ask spreads increase in response to exogenous changes in short selling for small-cap stocks.
- The results do not hold for a portfolio of mid-cap or large-cap stocks.

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