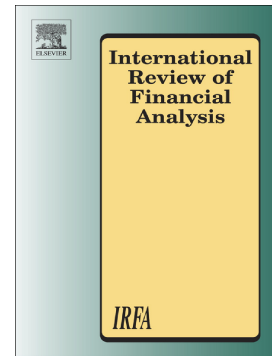


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Rui Ma, Hamish D. Anderson, Ben R. Marshall



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Stock Market Liquidity and Trading Activity: Is China Different?

Rui Ma*
Massey University
R.Ma@massey.ac.nz

Hamish D. Anderson
Massey University
H.D.Anderson@massey.ac.nz

Ben R. Marshall
Massey University
B.Marshall@massey.ac.nz

Abstract

We study market-wide liquidity and trading activity in China. Trading activity increases in up markets more than in down markets, which is consistent with the disposition effect and the large number of unsophisticated retail investors in China. Whereas, on average, liquidity and trading activity are lower around holidays, more recently, trading activity has been significantly lower before holidays and higher afterward. Aggregate short selling and margin trading activity boost trading activity, but short selling also increases spreads, indicating lower liquidity. We also document the positive effects of other recent regulatory changes and the increased influence of global factors in China.

JEL Classification Codes: G12; G15; G18

Keywords: Liquidity, trading activity, volume, stock market, China

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Corresponding author: Rui Ma, School of Economics and Finance, Massey University, Private Bag 11-222, Palmerston North, New Zealand. E-mail R.Ma@massey.ac.nz; tel. +64 6 356 9099 ext. 84052; fax +64 6 350 5651. This paper is based on an essay from Rui Ma's PhD thesis.

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