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Tolga Cenesizoglu, Gunnar Grass



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Bid- and ask-side liquidity in the NYSE limit order book[☆]

Tolga Cenesizoglu*

HEC Montreal and Alliance Manchester Business School

Gunnar Grass**

HEC Montreal

Abstract

We disentangle bid- and ask-side liquidity using 11 years of comprehensive New York Stock Exchange limit order book data to document several empirical facts improving our understanding of the determinants, commonality, and pricing of liquidity. First, the ask- but not bid-side liquidity of financial stocks deteriorates during the 2008 short-selling ban. Second, ask- (bid-)side liquidity increases (decreases) in lagged short- and long-term returns. Third, liquidity commonality increases during the financial crisis, more so on the bid- than on the ask-side. Finally, ask- but not bid-side illiquidity predicts daily returns, while both forecast monthly returns.

Keywords: Market Liquidity, Limit Order Book, Financial Crisis, Short Selling Ban, Market Microstructure, Asset Pricing

JEL classification: G01, G12, G14, G18

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*Address: 3000, ch. de la Côte-Sainte-Catherine, Montréal (Québec) Canada H3T 2A7

Phone: + 1 514 340 5668

Email: tolga.cenesizoglu@hec.ca

**Corresponding author

Address: 3000, ch. de la Côte-Sainte-Catherine, Montréal (Québec) Canada H3T 2A7

Phone: + 1 514 340 1540

Email: gunnar.grass@hec.ca

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