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TITLE: MEASURING THE RELATIONSHIP BETWEEN LIQUIDITY AND STOCK
RETURN: ISE APPLICATION

ABSTRACT

Liquidity in financial markets becomes vital day by day. Liquidity is an important determinant of stock returns. Most articles measuring relationship between liquidity and stock returns were applied in hybrid quote-driven market like NASDAQ and NYSE. Bid-ask spread and turnover ratio were generally used as liquidity proxy in those articles.

Firstly in this study, liquidity and return concepts are defined and then information is given about ISE and ISE's trading system.

Theoretical part of this study is formed due to Turkish and English sources about liquidity and returns by Literature survey technique. Deduction method is used in this study.

Data used in application part is provided from Istanbul Stock Exchange which is a pure order driven market. In the application part, the relationship between stock returns and liquidity is measured for period including June 2007-June 2008 by using Weighted Order Value (WOV) method and it contributes to finance literature. The results show that there are significant relationships between stock returns and liquidity in ISE.

KEYWORDS

Liquidity, Stock Returns, Istanbul Stock Exchange (ISE), Weighted Order Value (WOV), Market Microstructure