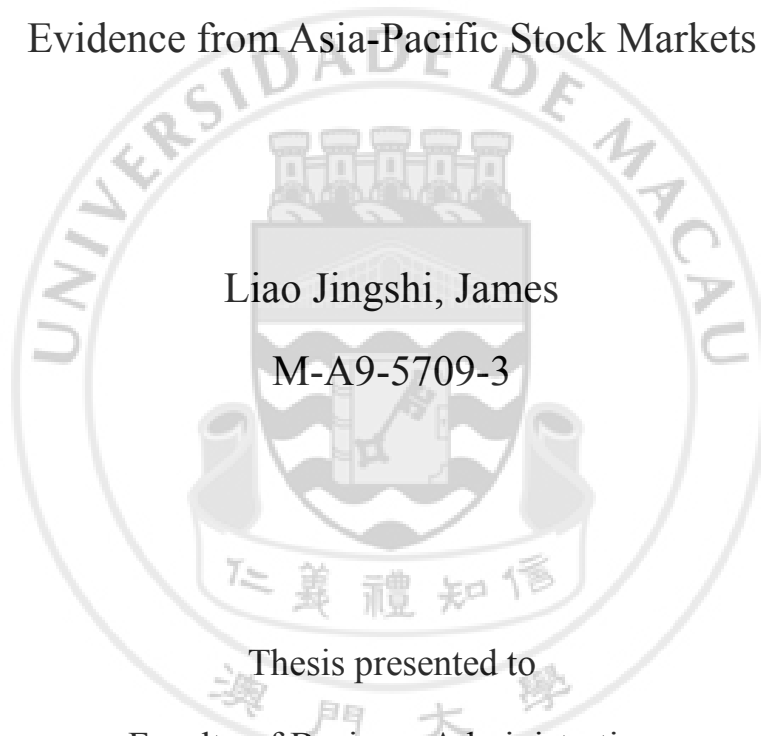


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Liquidity and Financial Constraints on Expected Stock Return:
Evidence from Asia-Pacific Stock Markets



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Abstract

To study the impact of liquidity and financial constraints on asset pricing in the Asia-Pacific emerging countries, this paper examines several widely used asset-pricing models, namely the Capital Asset Pricing Model (CAPM), Fama-French three-factor model, and the liquidity-augmented three-factor model. This paper tries to fill the gap in asset-pricing literature by providing non-US evidence to verify the liquidity and financial constraints hypotheses of asset-pricing. The times-series assets-pricing tests shows that liquidity is an important factor for asset pricing in Australia and Hong Kong while less important in Japan, Indonesia and the Philippines. However, financial constraint has an insignificant impact. The positive return-illiquidity relation is robust for different liquidity proxies, but with different degrees of impact among markets.

Key words: Liquidity, Financial constraints, Fama-French three-factor model, Emerging market, Asia-Pacific stock markets

Contents

1. Introduction.....	1
2. Literature review	3
2.1. <i>The evolution of asset-pricing tests</i>	3
2.2. <i>Liquidity and stock return</i>	4
2.3. <i>Financial constraints and stock returns</i>	6
3. Data and Methodology.....	8
3.1. <i>Data</i>	8
3.2. <i>Methodology</i>	10
4. Empirical results	13
4.1. <i>Descriptive statistics</i>	13
4.2. <i>Regression analysis</i>	16
4.3. <i>Comparison across ten countries/regions</i>	19
4.4. <i>Robustness test</i>	22
5. Conclusions.....	23
6. Reference:	25
Appendix A	40
Appendix B	42
Appendix C	44
Appendix D.....	45