

Independent study title	EXCESS CASH, STOCK LIQUIDITY, AND LIQUIDITY RISK: EVIDENCE FROM THAILAND
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Academic year	2020

ABSTRACT

This paper investigates the impact of excess cash on liquidity in two different definitions, including liquidity and liquidity risk, using non-financial firms' sample data from the Stock Exchange of Thailand in SET50 from 2010 through 2019. The liquidity measures used in this paper consist of Turnover, Amihud's illiquidity, and Liquidity Ratio. We find a negative relationship between excess cash and stock liquidity while a positive relationship between excess cash and liquidity risk. The findings support the management entrenchment hypothesis, suggesting that firms with more excess cash have lower liquidity because the investors think that firms will waste the benefits of shareholders. Therefore, the investors are less interested in these firms, resulting in stock liquidity will be lower, and increasing liquidity risk. In addition, we evaluate the relationship between excess cash, liquidity, and firm valuation. We find there is an inverted U-shaped relationship between excess cash and firm value while the relationship between liquidity and firm value depends on liquidity measures. Furthermore, we find a significant negative relationship on interaction terms between excess cash and Turnover, implying that firms are more liquid, holding more excess cash reduces the firm value.

Keywords: Excess cash, Stock liquidity, Liquidity risk, Firm valuation