



# ILLIQUIDITY AND STOCK PRICES: EVIDENCE FROM THE KINGDOM OF SAUDI ARABIA

Hela Ben Soltane\*

Department of Economics and Finance  
University of Ha'il. College of Business Administration  
Saudi Arabia  
[hela.bensoltane@gmail.com](mailto:hela.bensoltane@gmail.com)

\*Corresponding Author email: [hela.bensoltane@gmail.com](mailto:hela.bensoltane@gmail.com)

*Submitted: 15 November 2021*

*Revised: 27 December 2021*

*Accepted: 06 January 2022*

*Peer-review under responsibility of 7th Asia International Conference 2021 (Online) Scientific Committee*

<http://connectingasia.org/scientific-committee/>

© 2022 Published by Readers Insight Publisher,

Office # 6, First Floor, A & K Plaza, Near D Watson, F-10 Markaz, Islamabad. Pakistan,

[editor@readersinsight.net](mailto:editor@readersinsight.net)

*This is an open access article under the CC BY license (<http://creativecommons.org/licenses/by/4.0/>).*



## ABSTRACT

This study deals with the question of how asset prices are affected by illiquidity on stock markets. Our objectives are to examine the relationship over time between market illiquidity shocks and stock returns of Small and Medium-sized Enterprises (SMEs) listed on Saudi Stock Exchange (Tadawul), and to test whether this relationship differs from medium to small enterprises. Indeed, SMEs are often put in the same category versus big enterprises in financial analysis. In this study, we focus on the difference between them. We estimate illiquidity at weekly frequency using the measure of Amihud (2002) based on daily data. We examine the illiquidity-return relationship for individual stocks and for SME size-based portfolios. Our findings reveal that both medium and small enterprises returns are negatively related over time to market illiquidity shocks. However, this relation is stronger for small firms. While previous studies showed that illiquidity shocks affect more illiquid stocks, our study proves that this effect is stronger for stocks whose illiquidity levels are more volatile.

**Keywords:** *Illiquidity; Returns; Shocks; Market; SME; Saudi Arabia*