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A comprehensive study of liquidity before and after SEOs and SEO underpricing[☆]



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ABSTRACT

We comprehensively study various measures of stock trading liquidity around seasoned equity offerings (SEOs) and SEO underpricing using a sample of 3,811 SEOs, made from 1997 to 2012, and a matched non-SEO sample. We find that all liquidity measures of SEO firms improve significantly after SEO events. Furthermore, the magnitudes of reductions in transaction cost measures of illiquidity are significantly associated with relative offer size, the change in stock price, and the change in volatility with expected signs. Most importantly, a smaller magnitude of SEO underpricing is significantly and positively associated with a larger reduction in transaction cost measures of illiquidity.

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