Abstract

This work deals with liquidity as an important parameter, which influences a value of financial instruments. At the beginning it introduces the theory of liquidity and three different approaches how it can be perceived. This work I mainly focuses on approach which sees the lack of liquidity as a certain deduction from estimated value of an asset, in other words as an illiquidity discount. It also focuses on the value of liquidity and since every asset is actually liquid, because it can be sold at any time, they differ from each other by the level of liquidity. This value of liquidity is then reflected as transaction costs, where less liquid assets are characterized by lower costs. Transactions costs consist of explicit costs, bid-ask spread, price impact and opportunity costs. Illiquidity discount reflects the value of these costs and can be observed as a difference between the prices of liquid and illiquid assets. This difference can be measured in two ways. The first is by looking at restricted stock studies and the other is by looking at initial public offering studies. In order to find out the value of illiquidity discount this work uses data concerning restricted stocks. It comes to conclusion that illiquidity discount is affected by the size of company and its financial stability, by the block size of trading asset, by liquidity of assets owned by the company and by the financial health of a company. Using these findings the work shows how illiquidity discount could be used in evaluation of private companies.