Liquidity Effects of Buyback Announcements: Evidence for Indian Capital Markets
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Abstract

Buybacks are fast emerging as an effective alternative corporate payout policy. Buyback announcements are important events that create temporary market reactions in the form of changes in stock prices, liquidity, volatility and other parameters. This study scans the impact of such announcements on liquidity of the underlying stock on Bombay Stock Exchange. Taking a comprehensive sample of 115 announcements during a period of 2000-2009, an attempt has been made to understand the dynamics of buybacks in relation to effect on liquidity of the stocks in the market. The study mainly employs three popular measures, i.e. Daily Mean Volume, Market Adjusted Daily Mean Volume and Amivest Liquidity Ratio to provide broader base to liquidity dimensions. With a wider time frame before and after the buyback announcements, the study tries to encompass both short and long term impact of buyback announcements on liquidity. The results of the study confirm the presence of some relationship between buyback and liquidity.