

Thorsten Foltz

Financial Stability Risk. Measuring the Illiquidity of Corporate and Sovereign Bonds

Master's Thesis

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University of Siegen
Faculty III: School of Economic Disciplines

Financial Stability Risk: Measuring the Illiquidity of Corporate and Sovereign Bonds

Master Thesis

for attainment of the academic degree of

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presented by Thorsten Foltz

Abstract

Market liquidity is most important for financial markets and thus for the real economy. Market-makers seem to provide less liquidity recently. The reasons of such a behaviour are shown within this work. It exhibits the regulations which have changed, the behaviour of market-makers and how financial markets are able to become illiquid. After this more theoretical framework, which refers to financial stability, several measures of liquidity are introduced and empirically tested on a dataset of about 60,000 corporate and sovereign bonds in 34 countries over a period of eleven years. The result, is that bond markets became less liquid within the last three years than during the financial and the following European debt crisis.

Keywords: Market Liquidity, Market-Maker, Measuring Illiquidity, Financial Markets, Corporate and Sovereign Bonds

JEL Classification: C22, E44, G14, G15, G21, G23

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