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Relationship between Stock Market Volatility, Stock Market Liquidity and Financial Performance of Non-Financial Firms Listed on Pakistan Stock Exchange

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Abstract: This paper analyzed the empirical relationship between different measures of stock market volatility, traded volume, market and accounting measures of financial performance of 260 firms panel data listed on Pakistan Stock Exchange using Generalized Autoregressive Conditional heteroskedasticity (GARCH) and Generalized moments methods (GMM). The study found that financial performance has significant positive relation with traded volume and significant negative relationship with stock market volatility both in two measures. The study used both microeconomic and macroeconomic measures to calculate stock market volatility and both measures have significant effects on financial performance.

Keywords: Stock Market, Volatility, Liquidity, Firms Performance

Introduction

Stock Market is a key indicator of any country's economic and industrial performance and the policies are made to stabilize the economy and corporate sectors. These policies are made on the basis of stock market performance measured by stock market index, stock price returns, traded volume, market capitalization inflation, interest and exchange rates. These financial indicators affect the financial decisions such as hazard management, portfolio choices and corporate performances. Since the last two decades, the stock market volatility is contributing the key investment decisions and stock portfolio development for the investors as well as the portfolio managers for corporate performance through competitive intelligence (Metawa, Noura, et al., 2018).

Alti et al., (2012) argued that in emerging markets, the quality of information flow is poor, and investors wait for subsequent confirmation news to set stock prices which lead to persistence in firms returns. Walkshausl (2013) argued in study that the effect of stock market volatility is associated with the quality of firms. Moreover, the quality of the firm is normally measured by profitability and cash flow variation factors. The study identified that firms which are better in quality have better