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# The effect of privatization on the liquidity of stocks listed on the Tehran Stock Exchange

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## Abstract

Liquidity in the financial and securities markets, the number of securities traded at the lowest cost and lowest price changes shed. Since the liquidity of lower (illiquidity) a share, means high investment risk for investors and consequently the expected rate of return more to shareholders, thus reducing liquidity or increase of liquidity financing through the issue of the stock is relatively "makes undesirable. The privatization process of administrative, financial and legal that governments in many countries to carry out reforms in the economy and state administration run. This study examines the role of privatization on stock market liquidity Tehran Stock Exchange. Research estimates Eviews software and using panel data (panel data) was performed. The results of hypothesis testing using stock turnover and Myhvd criteria, indicates that there is a significant relationship between privatization and market liquidity. It also indicates that the liquidity boom in the stock market index over the period of stagnation due to market liquidity is more intense.

**Keywords:** Liquidity, stock turnover ratio, a measure of Amyhvd, privatization, stock exchange

### 1 – Introduction

Liquidity means the ability to buy or sell an asset at minimal cost, in the shortest possible time and without significant impact on the price of assets. One of the risks facing investors in securities, the liquidity risk was. Liquidity risk investors due to its expected rate of return and are adjusted for the increased cost of capital adjustment becomes firm. Liquidity risk is a significant role in asset pricing and market efficiency. Liquidity most important characteristic and a prerequisite for stability, consolidation and development of the capital market constitute this reason, creating liquidity for the securities of one of the most important functions of capital markets is considered. Since the implementation of the privatization program of state-owned enterprises through public offering on the Stock Exchange of different dimensions and can directly or indirectly affect market liquidity. (Talebnia, 2009)

In fact, privatization by increasing and improving opportunities for diversified investment liquidity of the stock market and the liquidity of the stock of other companies increases, while that in the event of improper execution privatization program such as mismatches between the companies privatized by investment leads to a reduction and the so-called liquidity trap is plagued by a lack of liquidity (Berthold, 2007)

Frydr and Martell in 2006 a positive factor in the regressions provide leverage. Stock companies of higher liquidity and lower borrowing rely more on financing through equity pay. This helps the efficiency and profitability stock. (Main Qadiri, 2010)
Investors with regard to investment returns and the risks to your assets, respectively. The rate of expected return on assets, return the lost markers of education under equal risk assets. One of the risk factors affecting the liquidity of their assets. The role of liquidity in asset value due to the crystallization of asset illiquidity risk in the minds of buyers that can cause investors to withdraw from the investment.

## 2- Background And the Literature Research
## Literature Research

### Privatization
A series of actions in which the levels of various areas, control or ownership or management of the public sector to the private sector deposits and scope of government sovereignty over economic activities is limited, and the private sector focus, privatization refers (Torkamani, 2013 )

### liquidity
The ability to buy and sell large amounts of securities, quickly and at low cost. Liquidity, the ability of investors to exchange financial assets to cash at the same price is the last trade price. Assuming that there is no new information since the last transaction gain (Dankr, 2011).

### Literature
Angie (2015) examined the relationship between quality and liquidity risk pay. factor Fama-French (1993) and found that: higher quality information is calculated with a lower risk liquidity Dard.sanya relationship between the cost of equity for companies that have higher disclosure quality is lower.
Lafond et al (2015) examined the relationship between income smoothing, corporate governance and liquidity Prdakhtnd.nha concluded that companies that are paving the optional high, have less liquidity so that trading volume is less and the difference in price on the other hand smoothing the supply and demand of natural liquidity is a direct relationship. in other words, investors differentiate between natural authority and smoothing are optional smooth so that their willingness to trade stock the corresponding reduced.

Syvglv et al (2015) examined the economic impact of earnings management on disclosure quality and liquidity of markets. They study a large sample of companies listed on the NYSE in 1996 and 2001 found Cash flow uncommon that companies that have less liquidity (as measured by standard was Myhvd) less income. They concluded that the management of liquidity becomes weakened.

Heflin et al (2014) of the points calculated by the research and investment management as a criterion for any company disclosed in 1988 and found that firms with better disclosure quality, liquidity higher. They showed that the disclosure of better quality, reduced risk of exchange-informed insiders holders and increases market liquidity.

## 3 – Research Methodology
For the purposes of this research, an applied research that aims to develop practical knowledge in a particular field, In other words, applied research directed toward practical application of knowledge (Sarmad, Bazargan, Hijaz, 2006).
The study consisted of all companies listed on Tehran Stock Exchange in the period from 1384 to the end of 1393 had activity on the stock exchange. Evaluated at the end of 1393 the number of companies in selected industries, including 48 company. The community is considered as an example when seen from the activities of the stock exchange.

**4- Analysis Of The Data**

**Using the standard model stock turnover (Turnover)**

First, before the regression to determine estimates (fixed effects model, random), we must take action. To do this we will use the following tests, Chow and Hausman will pay them.

**Chow test**

$$\begin{cases} H_0: & \alpha_r = \alpha_s \\ H_1: & \alpha_r \neq \alpha_s \end{cases}$$

Chow test result one can see in the image.

Table 1-output Chow test

| Sign | Df | Value | Tests of fixed effects |
|---|---|---|---|
| 0.1302 | (47,4555) | 3.423908 | **F** |
| 0.5899 | 47 | 14.484821 | **Chi-square** |

As you can see, it is more than 0.05 significance level test, so the null hypothesis (H0) that the width of the source is not rejected and accepted. In other words we can say that all are equal intercept.

We need to find out whether the sentences should intercept fixed or random effects model proved to be tested against random effects. This is used to select the Hausman test. The assumption of zero and one are provided as follows:

H0 : There is no correlation between individual effects and the explanatory variables.
H1 : There is a correlation between the individual effects and the explanatory variables.

The results of tests Hausmann see in Table 2.

Table 2-output table Hausman test

| Sign | Df | Value | Test random effects |
|---|---|---|---|
| 0.0091 | 9 | 0.6254 | **Random period** |

As you can see, the significance level of 0.05, so the null hypothesis (H0) is rejected and H1 accepted. In other words, there is a correlation between the individual effects and the explanatory variables. So should intercept fixed sentences and to estimate the model using fixed effects, can be used. So, for all the years of seeks can only have one intercept. Thus, the pooled model, will be estimated as follows.

$$TURNOVER_{it} = \alpha_i + \beta_1 PRIVA_{it} + \beta_2 Political_{it} + \beta_3 INT_{it} + \beta_4 PE_{it} + \beta_5 PL_{it} + \beta_6 SIZE_{it} + \beta_7 EXR_{it} + \beta_8 STIR_{it} + \beta_9 GBR_{it} + \upsilon_{it}$$

The results of the test in Figure 3 has been PLS.

| **Table 3: Estimates standard model stock turnover** | | | |
|---|---|---|---|
| **Dependent variable stock turnover** | | | |
| **Sign** | **t** | **Coefficient** | **Variable** |
| 0.0000 | 5.387219 | 5.83E-05 | **Intercept** |
| 0.0000 | 4.698193 | 0.015641 | **Privatization criteria** |
| 0.0063 | 2.731958 | 2.64E-05 | **Changing political** |
| 0.0758 | -1.775959 | -1.76E-06 | **Industry** |
| 0.0000 | 34.69815 | 0.319822 | **Benefited** |
| 0.7197 | 0.358834 | 0.010899 | **Price Fluctuation** |
| 0.0056 | 2.855697 | 0.001657 | **size of the company** |
| 0.0000 | 8.863365 | 0.144441 | **exchange rate** |
| 0.2297 | -1.211093 | -0.000939 | **Short-term interest rates** |
| 0.2011 | -3.191016 | -0.014798 | **Long-term interest rates** |
| **$R^2$** | 0.713754 | **R-squared** | 0.714607 |
| **Durbin Watson** | 2.041789 | | |

**Hypothesis testing using stock turnover**

Hypothesis: The hypothesis of the presence of a significant positive correlation between the privatization of public companies with stock liquidity in Tehran Stock Exchange.

The null hypothesis and a theory defined as follows:

$$\begin{cases} H0: \beta_i \, i = 0 \\ H_1: \beta_i \neq 0 \end{cases}$$

As in Figure 3 show, the coefficient t and the number of significant variables of privatization that one of the criteria of this study was to estimate the model, and the first research hypothesis is, at the level of 5% of statistical validity enjoyed (0.0000 <0.05 ) and can be a significant relationship between privatization and market liquidity stated. The hypothesis H0 is rejected and H1 accepted. In other words, there is a significant relationship between privatization and market liquidity. The coefficients of the regression equation equals privatization, is 0.015641.

The coefficient of determination (R2) equal to 71%, which reflects the fact that 71% of the stock's liquidity by the explanatory variables (independent) has been explained.
The model is estimated as follows:

$$TURNOVER_{it} = 5.83\text{E-}05 + 0.015641PRIVA_{it} + 2.64\text{E-}05Political_{it} + 0.319822PE_{it} + 0.010899PL_{it} + 0.001657SIZE_{it} + 0.144441EXR_{it}$$

**5- Results**

The results of hypothesis testing using stock turnover, indicate that there is a significant relationship between privatization and market liquidity. The coefficients of the regression equation equals privatization, is 0.015641. A significant correlation between variables, types, price volatility, short-term and long-term interest rates and liquidity with the turnover criterion does not exist. And it can be concluded that a significant relationship between the variables for the benefit of price, size, political developments and the dollar exchange rate and liquidity, using the criterion of turnover there.

**6- Suggestions for future research**

With each study, set to open a new path and continue, further study is required. The purpose of this research were as follows: The results of this study are necessary:
to evaluate the impact of privatization on the performance of the stock market
The effect of releasing timely information on a company's stock liquidity
3.Other indicators of liquidity in future research can be used to determine the best indicator for the market.
4.examine the relationship between suppliers of new shares (private organizations, investment companies, etc.) and liquidity of their shares.
5. Effect on Stock Liquidity industry

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