

Stock Splits and Liquidity: The Case of the Nasdaq-100 Index Tracking Stock

Patrick Dennis

First published: 15 July 2003

<https://doi.org/10.1111/1540-6288.00053>

Citations: 14

Abstract

In an attempt to disentangle the signaling effect from the liquidity effect of stock splits, I examine the liquidity changes following the two-for-one split of the Nasdaq-100 Index Tracking Stock. Since there can be no signaling with an index stock split, any difference between pre- and postsplit trading may be driven by liquidity but not signaling effects. I find that though the postsplit relative bid-ask spread is higher and daily turnover is unchanged, the frequency, share volume, and dollar-volume of small trades all increased after the split, indicating that the split improved liquidity for small trade-sizes.

References

Amihud, Y. and H. Mendelson, 1986. Asset pricing and the bid-ask spread, *Journal of Financial Economics* 17, 223–249.

[Web of Science®](#) | [Google Scholar](#)

Baker, H. K. and P. L. Gallagher, 1980. Management's view of stock splits, *Financial Management* 9, 73–77.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Brennan, M. J. and T. E. Copeland, 1988. Stock splits, stock prices, and transaction costs, *Journal of Financial Economics* 22, 83–101.

[Web of Science®](#) | [Google Scholar](#)

Conroy, R., R. Harris, and B. Benet, 1990. The effects of stock splits on bid-ask spreads, *Journal of Finance* 65, 1285–1295.

[Web of Science®](#) | [Google Scholar](#)

Constantinides, G., 1984. Optimal stock trading with personal taxes, *Journal of Financial Economics* 13, 65–89.

[Web of Science®](#) | [Google Scholar](#)

Dennis, P. and J. Weston, 2001. Trade size: Determinants and implications. *Working Paper*, University of Virginia and Rice University .

 | [Google Scholar](#) |

Dhatt, M., Y. Kim, and S. Mukherji, 1997. Did the 1986 Tax Reform Act affect market reactions to stock splits? A test of the tax-option hypothesis, *Financial Review* **32**, 249–271.

 | [Google Scholar](#) |

Gray, S., T. Smith, and R. Whaley, 2002. Stock splits: Implications for investor trading costs, *Forthcoming, Journal of Empirical Finance*.

 | [Google Scholar](#) |

Hu, S., 1997. Trading turnover and expected stock returns: The trading frequency hypothesis and evidence from the Tokyo Stock Exchange. *Working Paper*, University of Chicago .

 | [Google Scholar](#) |

Ikenberry, D., G. Rankine, and E. Stice, 1996. What do stock splits really signal? *Journal of Financial and Quantitative Analysis* **31**, 357–375.

 | [Web of Science®](#) | [Google Scholar](#) |

Lakonishok, J. and B. Lev, 1987. Stock splits and stock dividends: Why, who, and when, *Journal of Finance* **62**, 913–932.

 | [Web of Science®](#) | [Google Scholar](#) |

Lamoureux, C. and P. Poon, 1987. The market reaction to splits, *Journal of Finance* **62**, 1347–1370.

 | [Web of Science®](#) | [Google Scholar](#) |

Lee, C., 1993. Market integration and price execution for NYSE-listed securities, *Journal of Finance* **48**, 1002–1038.

 | [Web of Science®](#) | [Google Scholar](#) |

Lee, C. and M. Ready, 1991. Inferring trade direction from intraday data, *Journal of Finance* **46**, 733–746.

 | [Web of Science®](#) | [Google Scholar](#) |

McNichols, M. and A. Dravid, 1990. Stock dividends, stock splits, and signaling, *Journal of Finance* **45**, 857–879.

Mukherji, S., Y. Kim, and M. Walker, 1997. The effect of stock splits on the ownership structure of firms, *Journal of Corporate Finance* 3, 167–188.

[Google Scholar](#)

Muscarella, C. and M. Vetsuypens, 1996. Stock splits: signaling or liquidity? The case of ADR ‘solo-splits’, *Journal of Financial Economics* 42, 3–26.

[Web of Science®](#) | [Google Scholar](#)

Pilotte, E. and T. Manuel, 1996. The market's response to recurring events: The case of stock splits, *Journal of Financial Economics* 41, 111–127.

[Web of Science®](#) | [Google Scholar](#)

Schultz, P., 2000. Stock splits, tick size and sponsorship, *Journal of Finance* 55, 429–450.

[Web of Science®](#) | [Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY