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Marketability and Value: Measuring the Illiquidity Discount

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Abstract

Should investors be willing to pay higher prices for more liquid assets than for otherwise similar assets that are less liquid? If the answer is yes, how much should the premium be for liquid assets? Conversely, how do we estimate the discount for illiquid assets? In this paper, we argue that it is a mistake to think of some assets as illiquid and others as liquid and that liquidity is a continuum, where some assets are more liquid than others. We then examine why liquid assets may be priced more highly than otherwise similar illiquid assets and why some investors value liquidity more than others. We follow up by presenting the empirical evidence that has accumulated over time and across different assets - financial and real - on the cost of illiquidity. Finally, we consider how we can use the theory and evidence on illiquidity to estimate the effect of illiquidity on the value of an asset or business.

Keywords: marketability, illiquidity discount, liquidity discount, liquidity**JEL Classification:** G12, G24, G34[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID841484_code20838.pdf?abstractid=841484&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID841484_code20838.pdf?abstractid=841484&mirid=1&type=2\)](#)

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