ABSTRACT:

Stock split are a relatively new thing in Indian markets, especially since 2005 stock splits are introduce in Indian markets, with many companies stock price shooting beyond the normal trading range. Splitting the stocks do not change the market capitalization and also in price of the stock. However it has been observed that price increases beyond the normal price range after the stock split is being announced. The objective of the study is to analyze the impact of stock splits on stock liquidity. Using a sample of 142 stock splits announcements during the year 2006-2011, we compare change in stock liquidity before the announcement with the stock liquidity after the execution of the split using an Event Study Analysis. The results show an increase in the liquidity of the stock after the split.

Keywords: Stock split, Liquidity, Optimal trading range, Signalling, Abnormal returns, CAR, Attention Grapping Theory