

## **Asymmetric Information and Composition of Capital Inflows: Stock Market Microstructure Analysis of Asia Pacific Countries**

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**Abstract :** The purpose of this study is to examine the effect of asymmetric information on the composition of capital inflows. This study uses the stock market microstructure to capture the asymmetric information. Such an approach allows one to capture the level and extent of the asymmetric information from a firm's perspective. This study focuses on the two-dimensional measure of the market microstructure in capturing asymmetric information. The composition of capital inflows is measured by running six models simultaneously. By employing the panel data technique, the main finding of this research shows an increase in the asymmetric information of the stock market, in any of the two dimensions of width and depth. This leads to the reduction of foreign investments in both forms of foreign portfolio investment (FPI) and foreign direct investment (FDI), while the reduction in FPI is higher than that of the FDI. The significant effect of asymmetric information on capital inflows implicitly suggests for policymakers to control the changes of foreign capital inflows through transparency in the level of the market.

**Keywords :** capital flows composition, asymmetric information, stock market microstructure, foreign portfolio investment, foreign direct investment

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