

Does Stock Markets Asymmetric Information Affect Foreign Capital Flows?

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Abstract : This paper depicts the effects of asymmetric information in determining capital inflows to be captured through stock market microstructure. The model can explain several stylized facts regarding the capital immobility. The first phase of the research involves in collecting and refining 150,000,000 daily data of 11 stock markets over a period of one decade in an effort to minimize the impact of survivorship bias. Three micro techniques were used to measure information asymmetries. The final phase analyzes the model through panel data approach. As a unique contribution, this research will provide valuable information regarding negative effects of information asymmetries in stock markets on attracting foreign investments. The results of this study can be directly considered by policy makers to monitor and control changes of capital flow in order to keep market conditions in a healthy manner, by preventing and managing possible shocks to avoid sudden reversals and market failures.

Keywords : asymmetric information, capital inflow, market microstructure, investment

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