Financial Transaction Taxes

and their impact on the liquidity,

the trading volume

and the volatility of Italian stocks

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1. Abstract

This thesis gives an overview over the influences of the first stage of the Italian Financial Transaction Tax. Its impacts on the liquidity, the trading volume and the volatility of the FTSE MIB stocks are discussed. The structure of the taxes gives the possibility to compare its implications on other Italian companies which aren't directly influenced by it.

I found that the volatility got positively influenced by the Financial Transaction Tax, while the trading volume decreased after the introduction of the tax and the impact on the liquidity appears to be less conclusive.

2. Introduction

The goal of my thesis, as outlined in the research proposal, is to conduct an analysis of the influences the implementation of a Financial Transaction Tax (FTT) in Italy has had on the Italian stock market. The original goal was to conduct a Difference-in-Difference analysis of Italian stocks directly influenced by the tax and two control groups, built by the stocks of smaller Italian companies and German stocks enlisted in the Deutscher Aktienindex (DAX). During the process I added another control group existing of smaller German firms to increase the significance of my analysis. For the same reason I conducted more than the one analysis planned in my research proposal. All my analyses were conducted in RStudio.

In case of the liquidity the goal was to determine the influence the FTT had on the six dimensions defined by von Wyss (2014). Those dimensions are Tightness, Time, Depth, Bid-Side Market Impact, Ask-Side Market Impact and Resiliency.

Unfortunately the Depth dimension and the two Market Impact dimensions need data only available in the order book, which isn't accessible for the Italian market. Therefore I had to leave the Depth dimension out and alter the formula used to calculate the Market Impact.

I conducted the analysis of the trading volume and the volatility as outlined in my research proposal.