THE IMPACT OF LIQUIDITY THROUGH QUICK RATIO ON SHARE PRICE: EVIDENCE FROM JORDANIAN BANKS

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ABSTRACT: *This study is accomplished to verify whether liquidity through quick ratio has significant impact on share price of publicly listed banks in Jordan. The study covers the financial reports for the period from 2005 to 2011 of 14 publicly listed banks taken from the Amman Stock Exchange (ASE). The study found that there is a significant impact of quick ratio on share price. Results proved that there is significant impact of independent variables liquidity through quick ratio on share price of publicly listed banks in Jordan for the period 2005-2011.*

KEYWORDS: Quick Ratio, Share Price, Amman Stock Exchange (ASE).

INTRODUCTION

Liquidity analysis, which focuses on cash flows, measures a company's ability to meet its short-term obligations. Liquidity measures how quickly assets are converted into cash. In day-to-day operations, liquidity management is typically achieved through efficient use of assets. The level of liquidity needed differs from one industry to another. A particular company's liquidity position may vary according to the anticipated need for funds at any given time. Larger companies are usually better able to control the level and composition of their liabilities than smaller companies. Therefore, they may have more potential funding sources, including public capital and money markets. Liquidity creation is a core function of banks and an economic service of substantial importance to the economy. Also Shares in Jordan had a favorable performance during the last month. Jordan Stock Market (ASE) achieved 73 points or 3.74 percent during the last 30 days. From 2000 until 2013, Jordan Stock Market (ASE) averaged 2309 Index points reaching an all time high of 17893 Index points in June of 2011 and a record low of 796 Index points in Sep. of 2000. The ASE is a major stock market index which tracks the performance of 100 most liquid and largest companies from the First and Second Markets listed on the Amman Stock Exchange. The shares included in the index displays nearly 90% of the accumulation market capitalization of the listed companies at the regular market.

Liquidity has broad extent influence on financial markets. As previous studies showed theoretically and empirically, liquidity can explain the cross- section of assets with different liquidity, after controlling for other assets' characteristics such as risk, and the time series relationship between liquidity and securities returns. This study will try to proofing the influence of liquidity through quick ratio on Jordanian banks' shares price during the period from 2005 until 2011.

LITERATURE REVIEW

Analyzing Liquidity Risk and Expected Stock Returns is presented by Jang J., et al. (2012) study by proposing a simple method to find the multidimensionality of liquidity. The study indicated that existing liquidity measures have meaningful asset specific components, which justified the study approach. Establishing a model with two factors with market and liquidity factor proposed in this study. The study revealed that the model explained well the cross-section of stock returns in Korea for the period 1987-2010, describing the liquidity premium, size and value effects that the CAPM and Fama-French three-factor model fail to explain. Results also showed that the role of liquidity risk on expected stock returns is specifically pronounced during the post-Asian financial crisis period. The relationship between stock returns and its liquidity ability in companies listed in Tehran Stock Exchange has been presented by Salehi M., et al., (2011) study by collecting monthly data, during the period from 2002 until 2009. The results revealed that there is negative correlation between stock returns with its liquidity. The outcomes of these study supported negative relationship supposition between stock returns and its liquidity ability.

The relationship between liquidity and stock returns was presented by Dalgaard R. (2009) study which conducted the theoretical relationship, then followed by an empirical study based on a sample of listed Danish stocks. Moreover the cross-sectional relationship between liquidity and stock returns, and the cross-sectional relationship between liquidity risk and stock returns was studied.The results revealed that the liquidity should have an effect in equity markets and the empirical study of the Danish equity market has given some evidence of this fact.

Solve a clearly stable asset pricing model with liquidity risk is presented by Acharya V., et al., (2005) study by discussing the risk arising from unpredictable changes in liquidity over time. In the liquidity-adjusted capital asset pricing model, a security's required return depends on its expected liquidity as well as on the covariances of its own return and liquidity with market return and market liquidity. In addition, the model showed how a negative shock to a security's liquidity, revealed in low modern returns and high predicted future returns. The model provides a simple, unified framework for understanding the various ways through which liquidity risk may affect asset prices. The empirical results concentrated on the total and relative economic significance of these ways.A theoretical framework for explaining possible effects of various levels of liquidity on equity values is discussed by Townsend J. (1975) study by trying to prove if a corporation's liquidity position has an identifiable impact upon investors' evaluation of a common stock.

Investigation whether market-wide liquidity is an effectible variable and important for asset pricing is presented by Pastor L.; Stambaugh R. (2003) study which revealed that expected stock returns are related using cross-sectional analysis to the sensitivities of returns to fluctuations in accumulated liquidity. Monthly liquidity measure and an average of individual stock measures estimated with daily data, depends on the principle that order flow induces greater return comes when liquidity is lower. Over a 34 years period, the average return on stocks with high sensitivities to liquidity is more than that for stocks with low sensitivities by 7.5% annually, adjusted for exposures to the market return as well as size, value, and momentum factors.

RESEARCH METHODOLOGY

This section debates research methodology adopted in this study. It represents sample selection criteria, variables of the study and research model, hypotheses.

The Research Sample
The study subjects overall Jordanian Banks listed on the Amman Stock Exchange (ASE) during the period 2005-2011, except Islamic International Arab Bank, Dubai Islamic Bank, because no information available for both of them during some years of the period of the study. Also Industrial Development Bank because Chairman of the Industrial Development Bank (IDB), H.E. Mr. Samir Zaid Al-Rifa'i, announced IDB's obtainment of a initial license from the Central Bank of Jordan (CBJ) to start its activities in Jordan as an Islamic banking institution that offers a comprehensive package of Shariah-compliant services. IDB will also soon be re-launched under the name of Jordan Dubai Islamic Bank (JDIB).

Variables of the Study
Dependent Variable-Share Price

Share Price
A share price is the price of a single stock of a company's stock, which are located by market supply and demand. Share price is unsteady because it materially depends upon the forestations of buyers and sellers. For the purpose of this study, the share price refers to the price of the share at December 31, 2005, 2006, 2007, 2008, 2009, 2010, 2011 (closing price). Liquidity invention is an essence function of banks and an economic service of substantial importance to the economy.

Independent variables-Quick Ratio

Quick Ratio
The quick ratio is one of liquidity ratios which are employed by analyst to determine the firm's ability to pay its short-term liabilities. The quick ratio is more stringent measure of liquidity because it does not include inventories and other assets such as prepaid expenses that might not be very liquid.
Quick ratio would be calculated as follow:

Cash+ marketable securities +Receivables
Current liabilities

The higher the cash ratio, the more likely it is that the company will be able to pay its short-term debt instruments, typically liquid and of good credit quality.

Major Hypothesis
H01: There is no significant impact of independent variables quick ratio on dependent variable share price.

Research Model
In order to test the study hypotheses, the research models can be designed as follows:
Share price = -2.972+18.551quick ratio +e

Multiple Regressions

To test the research hypotheses SPSS program was used to prepare the table of analysis of variance (ANOVA table) as shown in table below:

Statistical Analysis

This section presents the results of descriptive analyses for the study variables.

4.1. Descriptive analysis

Bank Name	Average quick ratio	rank
JORDAN ISLAMIC BANK	0.49	14
JORDAN KUWAIT BANK	0.39	3
JORDAN COMMERCIAL BANK	0.32	1
THE HOUSING BANK FOR TRADE AND FINANCE	0.46	9
ARAB JORDAN INVESTMENT BANK	0.42	7
UNION BANK	0.46	10
ARAB BANKING CORPORATION /(JORDAN)	0.39	4
CAPITAL BANK OF JORDAN	0.42	8
SOCIETE GENERALE DE BANQUE - JORDANIE	0.46	11
CAIRO AMMAN BANK	0.4	5
BANK OF JORDAN	0.37	2
JORDAN NATIONAL BANK	0.47	12
ARAB BANK	0.47	13
JORDAN INVESTMENT AND FINANCE BANK	0.4	6

Number 14 in ranking indicates the highest rank while 1 is the lowest rank.

As can be seen from table above Jordan Islamic Bank has the highest quick ratio, while the lowest Jordan Commercial Bank.

Bank Name	Average share price	Rank
JORDAN ISLAMIC BANK	3.98	10
JORDAN KUWAIT BANK	5.97	12
JORDAN COMMERCIAL BANK	2.16	3
THE HOUSING BANK FOR TRADE AND FINANCE	9.33	13
ARAB JORDAN INVESTMENT BANK	2.23	4
UNION BANK	3.61	9
ARAB BANKING CORPORATION /(JORDAN)	2.01	2
CAPITAL BANK OF JORDAN	1.93	1
SOCIETE GENERALE DE BANQUE - JORDANIE	2.32	5
CAIRO AMMAN BANK	3.99	11
BANK OF JORDAN	3.09	8
JORDAN NATIONAL BANK	2.51	6
ARAB BANK	22.73	14
JORDAN INVESTMENT AND FINANCE BANK	2.69	7

Number 14 in ranking indicates the highest rank while 1 is the lowest rank.

As can be seen from table above Arab Bank has the highest share price, while the lowest Capita Bank of Jordan.

The study was conducted according to simple liner regression, as statistical model to measure the effect of independent variable liquidity through quick ratio on dependent variable share price. To test the research hypotheses SPSS program was used to prepare the table of analysis of variance (ANOVA table) as shown in the table below:

ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	344.065	1	344.065	6.580	.012[a]
Residual	5019.811	96	52.290		
Total	5363.876	97			

a. Predictors: (Constant), quick ratio

b. Dependent Variable: share price

By reviewing the table above we find that the P value= (.012) <.5% it is highly significant, and this supports the reject of the null hypothesis. There is no significant impact of independent variables quick ratio on dependent variables share price, which improves that There is significant impact of independent variable quick ratio on dependent variable share price for Jordanian Banks**.**

SUMMARY AND CONCLUSION

This study is investigated by studying the banking sector in Jordan as one of the most active and leading sectors in Jordan. For the analysis use the simple regression for the period from 2005 to 2011, to test the impact of liquidity through quick ratio on share price. Based on the statistical results, we revealed that there is significant impact of independent variable quick ratio on dependent variable share price. That means bank's share price in Jordanian Amman Stock Exchange significantly influenced by liquidity. After reviewing the theories on how liquidity affects the required returns of capital assets and the studies that investigate these theories. The theory predicts that both the level of liquidity and liquidity risk are priced and empirical studies revealed the influence of liquidity on asset prices to be statistically significant and economically important, such as Jang J., et al. (2012) study which conducted to proof the model that explained the positive effect of liquidity stock returns in Korea for the period 1987-2010. Also Dalgaard R. (2009) study which revealed that the liquidity should have an effect in equity markets and the empirical study of the Danish equity market has given some evidence of this fact.

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