Accounting Conservatism and Stock Liquidity: Evidence from Frontier Markets

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Abstract

This study aimed to examine the effects of accounting conservatism on the stock liquidity of 204 companies listed on the Palestine Stock Exchange and the Amman Stock Exchange between 2009 and 2022. This study employed an econometric model, specifically the Generalized Method of Moment (GMM) model, to estimate data. The results indicate that accounting conservatism positively affects the stock liquidity of companies in Palestine and Jordan, meaning that using conservative accounting methods helps improve stock liquidity in developing markets. More precisely, the application of conservative accounting techniques correlates with higher stock liquidity. These findings advance both the theoretical understanding and practical implications of financial reporting practices, addressing a gap in the literature regarding the relationship between accounting conservatism and stock liquidity in developing markets. The study's results offer crucial information to policymakers in developing countries, enabling them to enhance stock liquidity by formulating regulatory policies on accounting conservatism.

Keywords: Accounting Conservatism, Stock liquidity, Generalized Method of Moment (GMM), Developing Markets.

JEL Classification: M4, G1

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