

Share Repurchase Offers and Liquidity: An Examination of Temporary and Permanent Effects

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Abstract

Open market repurchase programs do not allow for precise estimates of share buy-back intensity to measure liquidity effects. To circumvent the uncertainty surrounding the quantity and timing of shares truly acquired in repurchase programs and to measure their long-term impact, we examine Dutch auctions and fixed-price tender offers. We investigate both the temporary and permanent liquidity effects of share repurchase programs and find that the improvement in liquidity is transitory and limited to the tender period when the firm's offer to repurchase shares is outstanding. Improvements in liquidity over longer intervals appear to be the result of an overall price improvement and a reduction in volatility, rather than due to structural change in market dynamics.