**Task 3**

Part 1

The correct answers were:

Q1: C

Q2: E

Q3: B

Part 2

Market liquidity is a feature where one can purchase or sell an asset quickly without drastically impacting the asset’s price. Liquidity can be measured by the bid-ask spread and can be affected by factors such as trade size, direction (buy vs. sell), and market volatility.

In the example of Tiger Corp, trade size and direction primarily affect liquidity. Typically, larger trade size, especially in a thinly-traded market, may have a price impact on the overall market once executed. In terms of the direction of the trade, the macroeconomic concept of supply and demand illustrates the effect on liquidity. If the majority of the trades are coming in as “sells” at a given time, then buyers could demand a higher price and bid-ask spread could widen due to such asymmetry of supply and demand. In some extreme cases, trades may need to be broken up in order to be executed quickly and minimize price impact on the market.

Volatility could also affect liquidity. Higher volatility generally reduces return for buyers and sellers who transact in a large size, as the purchase or the sale could impact market price in a way that is not in the investor’s favor.