**Examining the Effect of Earnings management on bid-ask spread and market liquidity**

**Abstract:**

The main purpose of this paper is to argue the extent that earnings management lowers liquidity. It should increase information asymmetry and impair trading liquidity. Using a sample of French firms from 2008 to 2011, we find that firms that manage earnings have wider bid-ask spreads. Our results are robust for both of two well established measures of market liquidity. Therefore the empirical results indicate that firms that exhibit greater earnings management are associated with lower market liquidity. These findings are in line with adverse selection and shed light on the role corporate governance devices can play in the consideration of shareholder interest’s protection, which leads to improved stock market liquidity levels.

**Keywords**: Earnings management, Bid-ask spreads, stock liquidity, discretionary accruals