This study examines the relationship between market premium, size premium, illiquidity premium and stock returns in Pakistani, Indian and Chinese equity market for the period of June 2001 to June 2016 by using Fama and French (1992, 1993) methodology. This is the first study in three Asian emerging markets i.e Pakistan, India and China that explores the relationship among stated variables in combined form by employing a large sample of 60 companies from each stock exchange i.e Karachi Stock Exchange, Bombay Stock Exchange and Shenzhen Stock Exchange on the basis of market capitalization. An analysis of the results reveals that there is no significant difference in Pakistani, Indian and Chinese market with reference to asset pricing. Market premium has significant positive impact on equity returns in all three markets. Inconsistency is observed in case of size premium because SMB is significantly partially influencing portfolio returns of S, S/LL, S/HL and P portfolios. But, it is found negative in case of big portfolios. Illiquidity premium is found significantly influencing portfolio returns. Its influence is found positive for low liquid stocks and negative for high liquid stocks. Therefore, Liquidity factor is priced by all three markets (Pakistan, China and India). The explanatory power of liquidity-augmented asset pricing model is higher than traditional CAPM for all three equity markets i.e Pakistan, China and India. So, this liquidity based asset pricing model can facilitate investors in making stylized portfolios and also helpful in making resource allocation decisions. Therefore, it can be hypothesized that illiquidity premium has also positive and significant impact on equity returns in Pakistan, China and India.
Key Words: Asset Pricing, Illiquidity Premium, Market Premium, Size Premium