Liquidity is the ability of trading an asset quickly, at low cost and without causing significant movement in the market price. This dissertation first looks at liquidity and asset prices with a focus on liquidity leak events and downside liquidity. Liquidity might not be a worry to investors in normal market conditions. However, it does become a first-order concern when a security hits an illiquid state and is trapped there for a long time. Such events, referred to as liquidity leaks, are measured by liquid leak probability using a Markov regime-switching model. Results show that liquid leak probability commands an annual premium of 1.33%. Moreover, while liquidity level and risk are important to investors in general, they can be particularly important in a declining market. When market downside and upside are differentiated explicitly, evidence shows that downside illiquidity level has dominant explanatory power for the cross-sectional returns. Second, the dissertation looks at liquidity and institutional design by examining the value of designated market makers (DMMs). DMMs commit to provide a liquidity supply at all time in the market and are usually hired by small-caps. It is shown that DMMs improve liquidity level, reduce liquidity risk, generate abnormal returns, play as a ‘supplier of last resort’ and reduce pricing errors.