

Trading Mechanisms And Value Effects: Evidence From The London Stock Exchange

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Abstract

Abstract: Over the last years we have witnessed sweeping changes in trading systems all over the world. Those changes provided academics with an opportunity to look into the microstructure of different markets. Most empirical work in the area has concentrated on comparing changes in liquidity, volatility, trading volume and asymmetric information under different trading settings. Informational efficiency and spread sensitivity to volatility has been neglected however. This paper looks into informational efficiency and spread sensitivity to volatility under different trading settings namely a dealership, an order driven market and a hybrid market. We use FTSE100 and FTSE250 stocks as our sample. The evidence shows that order driven markets respond faster to information compared to dealerships and that spread is more sensitive to volatility in a dealership than in an order driven market. The degree of informational efficiency as well as spread sensitivity to volatility is the same between a dealership and a hybrid market.

Keywords: London Stock exchange, SEAQ, SETS, SETSmm, informational efficiency, spread sensitivity, volatility

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