A Cross-Country Model for the Influence of the Pre-Trade Transparency on Market Liquidity and Price Volatility

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Abstract
In this paper we examine how the pre-trade transparency (PTT), a specific market microstructure feature, affects the liquidity and the price volatility of a Stock Exchange. In particular, we estimate a system of simultaneous equations for a set of liquidity and volatility indicators as a function of the PTT, given a series of control variables.

Our main finding is that transparency increases liquidity and reduces volatility and this is coherent with part of the existing literature. Moreover, the analysis provides empirical evidence of a series of liquidity-volatility interconnections.

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