

ABSTRACT

Research on market microstructure explored the techniques in which the working processes of market affects determinants of prices, transaction costs, trading volume and trading behavior. Availability of high-frequency trading (HFT) data, consisting of Orders and Quotes, from stock markets, in recent years, has given new foundation to intraday stock market research. The validity of market microstructure theories, developed with low frequency data, are being re-examined with recent high frequency data and, in many cases, old theories are being replaced with new findings. Introduction of HFT improves market quality, reduces spreads, increases market depth, and enhances price discovery. The present study is set to empirically analyze, under Indian conditions, (a) various factors driving bid-ask spread, (b) asymmetry information and transaction costs in bid-ask spread and (c) probability of limit order execution and hazard rates.

Subject to the usual assumptions of the techniques used and the data limitations, the study has made the following salient findings; (a) return volatility, share price, trading volume, number of trades are significant determinants of spreads, (b) positive relationship between order processing cost and volume; (c) volatility and trading volume have positive relation with asymmetry information cost;(d) same side book depth, opposite side open indicator, remaining time intervals, bid-ask spread, tick volume are the determinants of execution probability; (e) tick volume, remaining intervals, quoted spread, price aggressiveness, book depth, return volatility and inferior price are the determinants of survival analysis. The findings of the Study have significant implications for traders and stock exchange regulator.

Key Words: Market Microstructure, Limit Order Book, Order Processing Cost, Asymmetry Information Cost, Execution Probability, Hazard Rates, Survival Analysis