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Article

Competition among Trading Venues: Information and Trading on Electronic Communications Networks

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Abstract

This paper explores the competition between two trading venues, Electronic Communication Networks (ECNs) and Nasdaq market makers. ECNs offer the advantages of anonymity and speed of execution, which attract informed traders. Thus, trades are more likely to occur on ECNs when information asymmetry is greater and when trading volume and stock-return volatility are high. ECN trades have greater permanent price impacts and more private information is revealed through ECN trades than though market-maker trades. However, ECN trades have higher ex ante trading costs because market makers can preference or internalize the less informed trades and offer them better executions.

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