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Article

The Quality of ECN and Nasdaq Market Maker Quotes

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ABSTRACT

This paper compares the quality of quotes submitted by electronic communication networks (ECNs) and by traditional market makers to the Nasdaq quote montage. An analysis of the most active Nasdaq stocks shows that ECNs not only post informative quotes, but also, compared to market makers, ECNs post quotes rapidly and are more often at the inside. Additionally, ECN quoted spreads are smaller than dealer quoted spreads. The evidence suggests that the proliferation of alternative trading venues, such as ECNs, may promote quote quality rather than fragmenting markets. Moreover, the results suggest that a more open book contributes to quote quality.

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