

Closing call auctions and liquidity

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Abstract

The present paper examines the impact of closing call auctions on liquidity. It exploits the natural experiment offered by the introduction of a closing call auction on the Australian Stock Exchange on 10 February 1997. The introduction of the closing call auction is associated with a reduction in trading volume at the close of continuous trading. However, bid-ask spreads during continuous trading are largely unaffected by the introduction of the closing call auction. Therefore, closing call auctions consolidate liquidity at a single point in time without having any adverse effect on the cost of trading.

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