

The Impact of Pennies on the Market Quality of the Toronto Stock Exchange

Brian F. Smith, D. Alasdair S. Turnbull , Robert W. White

First published: 11 April 2006

<https://doi.org/10.1111/j.1540-6288.2006.00141.x>

The authors acknowledge the Toronto Stock Exchange for allowing access to the data used in this study. We are grateful to Arnie Cowan and Cynthia Campbell (the co-editors) and two anonymous referees for very helpful comments.



Abstract

Using detailed order flow data from the Toronto Stock Exchange, this paper finds no evidence that a smaller tick size lessens market liquidity for either small or large traders. Rather, there is evidence of lower trading costs, faster time to order execution, and greater price continuity. Consistent with a penny tick allowing a finer pricing grid search, there is an increase in the number of Change Former Orders and cancellations.

References

Ahn, H., C.Q. Cao, and H. Choe, 1998. Decimalization and competition under stock markets: Evidence from the Toronto Stock Exchange cross-listed securities, *Journal of Financial Markets* 1, 51-87.

[Google Scholar](#) 

Anshuman, V. and A. Kalay, 1998. Market making rents under discrete prices, *Review of Financial Studies* 11, 81-109.

[Web of Science®](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

Chan, Y., 2005. Price movement effects on the state of the electronic limit-order book, *The Financial Review* 40, forthcoming.

[Google Scholar](#)

Chung, K.H. and C. Chuwonganant, 2002. Tick size and quote revisions on the NYSE, *Journal of Financial Markets* 5, 391–410.

[Web of Science®](#) | [Google Scholar](#)

French, D.W. and T.W. Foster, 2002. Does price discreteness affect the increase in return volatility following stock splits? *The Financial Review* 37, 281–293.

[Google Scholar](#)

Goldstein, M.A. and K.A. Kavajecz, 2000. Eighths, sixteenths, and market depth: Changes in tick size and liquidity provision on the NYSE, *Journal of Financial Economics* 56, 125–149.

[Web of Science®](#) | [Google Scholar](#)

Harris, L., 1994. Minimum price variations, discrete bid-ask spreads, and quotation sizes, *Review of Financial Studies* 7, 149–178.

[Web of Science®](#) | [Google Scholar](#)

Harris, L., 1996. Does a Large Minimum Price Variation Encourage Order Exposure? *Working Paper*, Marshall School of Business, University of Southern California .

[Google Scholar](#)

Harris, L. and J. Hasbrouck, 1996. Market vs. limit orders: The SuperDOT evidence on order submission strategy, *Journal of Financial and Quantitative Analysis* 31, 213–231.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Seppi, D.J., 1997. Liquidity provision with limit orders and a strategic specialist, *Review of Financial Studies* 10, 103–150.

[Web of Science®](#) | [Google Scholar](#)

Smith, B.F., D.A. Turnbull, and R.W. White, 2001. Upstairs market for principal and agency trades: Analysis of adverse information and price effects, *Journal of Finance* 56, 1723–1746.

[Web of Science®](#) | [Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential