

Liquidity Measurement Problems in Fast, Competitive Markets: Expensive and Cheap Solutions

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ABSTRACT

Do fast, competitive markets yield liquidity measurement problems when using the popular *Monthly Trade and Quote* (MTAQ) database? Yes. MTAQ yields distorted measures of spreads, trade location, and price impact compared with the expensive *Daily Trade and Quote* (DTAQ) database. These problems are driven by (1) withdrawn quotes, (2) second (versus millisecond) time stamps, and (3) other causes, including canceled quotes. The expensive solution, using DTAQ, is first-best. For financially constrained researchers, the cheap solution—using MTAQ with our new Interpolated Time technique, adjusting for withdrawn quotes, and deleting economically nonsensical states—is second-best. These solutions change research inferences.

Supporting Information

Disclaimer: Supplementary materials have been peer-reviewed but not copyedited.

Filename	Description
jofi12127-sup-0001-Appendix.docx 238.2 KB	Appendix S1: Internet Appendix.

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