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Limit Order Flow, Market Impact and Optimal Order Sizes: Evidence from NASDAQ TotalView-ITCH Data

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Abstract

In this paper, we provide new empirical evidence on order submission activity and price impacts of limit orders at NASDAQ. Employing NASDAQ TotalView-ITCH data, we find that market participants dominantly submit limit orders with sizes equal to a round lot. Most limit orders are canceled almost immediately after submission if not getting executed. Moreover, only very few market orders walk through the book, i.e., directly move the best ask or bid quote. Estimates of impulse-response functions on the basis of a cointegrated VAR model for quotes and market depth allow us to quantify the market impact of incoming limit orders. We propose a method to predict the optimal size of a limit order conditional on its position in the book and a given fixed level of expected market impact.

Keywords: price impact, limit order, impulse response function, cointegration, optimal order size

JEL Classification: G14, C32, G17

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