



[Download This Paper \(Delivery.cfm/SSRN_ID302398_code15917.pdf?abstractid=302398&mirid=1\)](#)
[Open PDF in Browser \(Delivery.cfm/SSRN_ID302398_code15917.pdf?abstractid=302398&mirid=1&type=2\)](#)
 [Add Paper to My Library](#)

 Share:    

Imperfect Competition in Financial Markets: Island vs NASDAQ

40 Pages

Posted: 23 Nov 2003

 Bruno Biais (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=43360)

Centre for Economic Policy Research (CEPR)

 Christophe Bisiere (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=327239)

Universite de Toulouse - (IDEI - CRG)

 Chester S. Spatt (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=15917)

Carnegie Mellon University - David A. Tepper School of Business

Date Written: November 26, 2003

Abstract

The Internet technology reduces the cost of transmitting and exchanging information. ECNs exploit this opportunity to enable investors to place quotes at very little cost and compete with incumbent stock exchanges. Does this quasi-free entry situation lead to competitive liquidity supply? We analyze trades and order book dynamics on Nasdaq and Island. The Nasdaq touch is frequently undercut by Island limit orders, using the finer tick size prevailing on that ECN. Before decimalization, the coarse tick size constrained Nasdaq spreads, and undercutting Island limit order traders earned oligopoly rents. After decimalization, the hypothesis that liquidity suppliers do not earn rents cannot be rejected.

Keywords: financial markets, liquidity supply, ECN, Island, NASDAQ

JEL Classification: G10, G23

[Suggested Citation](#) >

[Show Contact Information](#) >


[Download This Paper \(Delivery.cfm/SSRN_ID302398_code15917.pdf?abstractid=302398&mirid=1\)](#)
[Open PDF in Browser \(Delivery.cfm/SSRN_ID302398_code15917.pdf?abstractid=302398&mirid=1&type=2\)](#)

26 References

1. M Andresen
Don't CLOBer the ECNs
Wall Street Journal Posted: 2000-03-27
2. M Barclay , W Christie , J Harris , E Kandel , P Schultz
The effects of market reform on trading costs and depths of Nasdaq stocks
Journal of Finance , volume 54 , , p. 1 - 34 Posted: 1999
Crossref (<https://doi.org/10.1111/0022-1082.00097>)
3. M Barclay , T Hendershott , T McCormick
Competition among trading venues: Information and trading on electronic communications networks
Journal of Finance , volume 58 , p. 2637 - 2665 Posted: 2003

We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve, and personalize our content and your digital experience. For more information, see our [Cookie Policy](#) (<https://www.elsevier.com/legal/cookiepolicy>)

4. D Bernhardt , E Hughson
Splitting orders

[Cookie Settings](#)
[Accept all cookies](#)

0 Citations

Fetch Citations



Do you have negative results from your research you’d like to share?

Submit Negative Results (<https://www.ssrn.com/index.cfm/en/Negative-Results/>)

Paper statistics

DOWNLOADS	1,370
ABSTRACT VIEWS	6,940
RANK	26,959

42 Citations

26 References

PlumX Metrics



https://plu.mx/ssrn/a/?ssrn_id=302398
Related eJournals

American Finance Association Meetings (AFA) (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=239868)

Follow ⓘ

Mutual Funds, Hedge Funds & Investment Industry eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1504392)

Follow ⓘ

View more >

Recommended Papers

- Limit Order Book as a Market for Liquidity (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=269908&rec=1&srcabs=302398&pos=1)
By Thierry Foucault (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=57561), Ohad Kadan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=276421), ...
- Limit Order Book as a Market for Liquidity (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=279911&rec=1&srcabs=302398&pos=2)
By Thierry Foucault (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=57561), Ohad Kadan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=276421), ...
- Equilibrium in a Dynamic Limit Order Market (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=410021&rec=1&srcabs=302398&pos=3)
By Ronald L. Goettler (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=279881), Christine A. Parlour (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=129817), ...

View more >

Feedback

SSRN Quick Links

▼

SSRN Rankings

▼

About SSRN

▼

f (<https://www.facebook.com/SSRNcommunity/>)

in (<https://www.linkedin.com/company/493409?>

| trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A | |

🐦 (<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>)

Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).

⚡

(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)