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Trade Execution Costs on NASDAQ and the NYSE: A Post-Reform Comparison

Published online by Cambridge University Press: **06 April 2009**

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Abstract

Trade execution costs remain larger on NASDAQ compared to the NYSE in the wake of new SEC-mandated order-handling rules and reductions in tick sizes, but the differential across markets is smaller than in earlier years. Cross-sectional regression analysis indicates that the differences in average trade execution costs are not explained by variation in observable economic factors. Quotations on both markets continue to cluster disproportionately on round fractions, and more so on NASDAQ than the NYSE, but quotation rounding appears not to be responsible for the greater NASDAQ execution costs. Preferencing agreements are highlighted as a likely reason that NASDAQ trade execution costs remain larger.

Type

Research Article

Information

[Journal of Financial and Quantitative Analysis](#), [Volume 34](#), [Issue 3](#), September 1999, pp. 387 - 407

DOI: <https://doi.org/10.2307/2676265>

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