







# A call auction's impact on price formation and order routing: Evidence from the NASDAQ stock market

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## Abstract

Electronic call auctions are used globally to open and close equity market trading; as such, they are a critically important facility that needs to be better understood. The paper focuses on the impact NASDAQ's calls (introduced in 2004) have had on bid-ask spreads, price volatility, and order routing in the continuous market that follows daily openings and which precedes daily closings. NASDAQ's closing call has significantly reduced both spreads and volatility for all market capitalization groups. Its opening call similarly reduced spreads, while a generally similar, though somewhat weaker, pattern of volatility reduction was realized. Although the pattern of trading volume has, for the most part, not been significantly affected, our findings, comprehensively viewed, suggest that the calls have had a positive spillover effect on the dynamic behavior of price formation in NASDAQ's continuous market.

## Highlights

► We focus on the impact NASDAQ's calls that were introduced in 2004. ► The calls have significantly reduced both spreads and volatility. ► The calls have had a positive spillover effect on the dynamic behavior of price formation.

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## JEL classification

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