Taylor & Francis
Online

Home ► All Journals ► Economics, Finance & Business ► Applied Economics ► List of Issues
► Volume 44, Issue 8 ► The switch from continuous to call aucti ....

Original Articles

The switch from continuous to call auction trading in response to a large intraday price movement

Juan C. Reboredo

66 Cite this article   ↗ https://doi.org/10.1080/00036846.2010.526584

📄 Full Article   🖼 Figures & data   ▤ References   66 Citations   ᵐ Metrics

🖨 Reprints & Permissions   Read this article   ◄ Share

Abstract

Some European exchanges (e.g. Euronext, Frankfurt and Madrid) make use of a mechanism to moderate price volatility that was proposed by Madhavan (1992) as preferable to a trading halt in times of market stress. It consists of a temporary switch from continuous to call auction trading in an individual security whenever its price moves beyond predetermined limits. This article studies whether this mechanism sharpens the information content of prices, dampens volatility and normalizes trading volume and intensity. Taking intraday data for the Madrid order driven continuous market, I find post switch improvements in the information content of prices and reductions in volatility, especially for thinly traded stocks. Trading volume and intensity peaked around auctions, but soon returned to preevent levels.

Acknowledgements

Notes

[1] See Galper ([1999](#)).

[2] For reviews of the trading halt literature, see Kyle ([1988](#)), France et al. ([1994](#)), Harris ([1998](#)) and Kim and Yang ([2004](#)).

[3] For a more detailed account of the SSE trading system and trading rules, visit http://www.sbolsas.es.

[4] The official rules provide for resolution of possible ties between different prices.

[5] The static and dynamic price collars are also used to control opening and closing auctions. When the final virtual resolution price of the auction lies outside one of the collars (the static collar in the case of opening auctions, and either the static or the dynamic collar in that of closing auctions), the auction is extended for 2 min. However, no such extension of volatility auctions is possible.

[6] Parallel analyses were also carried out for subsamples defined by whether the auction-resolving price was higher or lower than the price in the last transaction before the auction. No asymmetry was found between these two subsamples as regards the behaviour of price discovery, price volatility, bid-ask spread or trading volume and intensity (results available on request).

[7] Unfortunately, it has not been possible to gain access to data allowing analysis of the progress of learning during volatility auctions.

Related Research Data

A closing call's impact on market quality at Euronext Paris
Source: Journal of Financial Economics

On Technical Analysis
Source: Review of Financial Studies

Price Discovery and Learning during the Preopening Period in the Paris Bourse
Source: Journal of Political Economy

Electronic Call Market Trading
Source: Unknown Repository

Order Flow and Liquidity around NYSE Trading Halts
Source: The Journal of Finance

What Makes Circuit Breakers Attractive to Financial Markets? A Survey
Source: Financial Markets Institutions and Instruments

Market structure, informational efficiency and liquidity: An experimental comparison of auction and dealer markets
Source: Journal of Financial Markets

Related research ⓘ

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email

✉ **Sign me up**