Speed and Stock Market Quality: The NYSE’s Hybrid

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On Wall Street, milliseconds matter.
Hybrid speeds up executions

Hendershott & Moulton, 2010
Research questions

• How does increasing speed affect trading?
  – Simply reduce the timescale?

• Or also “organic” aspects of market:
  – Liquidity?
  – Rate and efficiency of information incorporation into prices?

Hendershott & Moulton, 2010
Spreads rise with Hybrid

Hendershott & Moulton, 2010
Main Findings

• With faster execution:
  – Bid-ask spreads increase (lower liquidity)
  – Information content increases

• Higher Adverse selection
  but

• Better Price efficiency

Hendershott & Moulton, 2010