



OMICS Group International through its Open Access Initiative is committed to make genuine and reliable contributions to the scientific community. OMICS Group hosts over 400 leading-edge peer reviewed Open Access Journals and organizes over 300 International Conferences annually all over the world. OMICS Publishing Group journals have over 3 million readers and the fame and success of the same can be attributed to the strong editorial board which contains over 30000 eminent personalities that ensure a rapid, quality and quick review process. OMICS Group signed an agreement with more than 1000 International Societies to make healthcare information Open Access.

### **OMICS** Journals are welcoming Submissions

OMICS Group welcomes submissions that are original and technically so as to serve both the developing world and developed countries in the best possible way.

OMICS Journals are poised in excellence by publishing high quality research. OMICS Group follows an Editorial Manager® System peer review process and boasts of a strong and active editorial board.

Editors and reviewers are experts in their field and provide

Editors and reviewers are experts in their field and provide anonymous, unbiased and detailed reviews of all submissions. The journal gives the options of multiple language translations for all the articles and all archived articles are available in HTML, XML, PDF and audio formats. Also, all the published articles are archived in repositories and indexing services like DOAJ, CAS, Google Scholar, Scientific Commons, Index Copernicus, EBSCO, HINARI and GALE.

For more details please visit our website: <a href="http://omicsonline.org/Submitmanuscript.php">http://omicsonline.org/Submitmanuscript.php</a>

## Editor

#### H Kent Baker

University Professor of Finance

American University

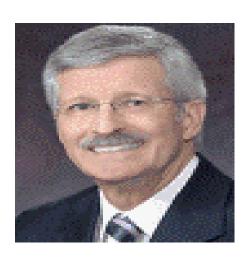
**Kogod School of Business** 

Department of Finance and Real Estate

Washington DC, 20016-8044, USA

Tel: 202-885-1949

Fax: 202-885-1946





# **Biography**

- Prof. H. Kent Baker is University Professor of Finance at the Kogod School of Business, American University in Washington, DC.
- He is the author/co-editor or editor/co-editor of 24 books including several textbooks.
- Professor Baker has also published more than 250 journal articles, monographs, book chapters, and proceedings as well as 350 book reviews and abstracts.
- Much of his research is empirical and published in peer-reviewed academic journals

#### Journals include:

- Journal of Finance
- Journal of Financial and Quantitative Analysis
- Financial Management
- Financial Analysts Journal
- Journal of Portfolio Management
- Journal of Financial Research
- Financial Review
- Harvard Business Review
- Journal of Accountancy

- He has had consulting and training experience with more than 100 organizations.
- He currently serves on six advisory or editorial boards.
- Professor Baker received a B.S.B.A. from Georgetown
  University; an M.B.A., M.Ed., and D.B.A. from the University of
  Maryland, and M.S., M.A., and two PhDs from American
  University.
- He also holds CFA and CMA designations.

### **Research Interest**

### His research interests include:

- Survey research
- Investor behavior
- Financial psychology
- Market microstructure
- Dividend policy
- Mutual funds

## **Market Microstructure**

- Market Microstructure is the process by which securities such as stocks are traded.
- For a stock market to function properly, a structure is needed to:
- 1. Facilitate the placing of orders.
- 2. Speed the execution of the trades ordered.
- 3. Provide equal access to information for all investors.
- It is the study of the process and outcomes of exchanging assets under explicit trading rules

- Analysis of how specific trading mechanisms affect the price formation process.
- Trading mechanism: set of rules governing the exchange of financial assets (stocks, derivatives) or foreign currencies in a market.

#### **Need for market microstructure**

- Tries to answer how prices are formed in the economy.
- Market microstructure has a profound impact on the real world on traders, broker/dealers, exchanges, regulators, and policy makers alike.

# **Organization of Financial Markets**

- Market player
  - Brokers: transmit orders for customers, act as conduits for the customers' orders. Involved only in interdealer transactions (FX market) =⇒ pure match makers (connect dealers).
  - Dealers: trade for their own account or also facilitate customer orders (broker/dealer).
  - Market makers: (specialists): quote price to buy or sell.
     Generally take a position in the security =⇒ dealer function.

#### Orders:

- Orders are instructions that traders give to the brokers and exchanges that arrange their trades.
- They specify:
  - security to be traded,
  - how much to trade,
  - whether to buy or sell,
  - Terms
- They may also specify:
  - their validity
  - their execution time

- whether they can be partially filled or not
- Orders affect the profit from trading, transaction costs, and the liquidity.
- Major trading issues
- Liquidity
- Transaction Costs
- Informative Prices
- Volatility
- Trading Profits

# Forces affecting the structure of markets

- Demand for trading
  - Liquidity trading
  - Information trading
  - Noise trading (Black (1991))
- Order processing costs
  - Information system
  - Order routing systems (e.g., SuperDOT)
  - Order execution system (e.g., SuperMontage)
  - Clearing and Settlement

- Technology and automated trading
  - Resistance/vested interests (e.g., NYSE floor community!)
  - Block traders
- Risk bearing
  - Inventory risk
  - Payments risk
- Institutionalization
  - 50% of volume is institutional traders

- Free trading options
  - Stale limit orders
  - Stale quotes
- Information trading
  - Liquidity traders lose
  - Informed traders need to be compensated for research
- Anonymity, Reputation, Transparency
  - Disclosure of trades and quotes
  - Delayed disclosure
  - Upstairs facilitated trade
  - Reputation through repeated trading

### **Market structures**

- The trading rules and the trading systems define a market's market structure.
- Call markets versus continuous markets.
  - Call markets allow trades only when the market is called (rotation among securities).
  - Continuous markets allow trades anytime during regular trading hours.
  - Hybrids of course exist (NYSE, the LSE and soon Nasdaq)
  - Which one would you prefer, and why?

- Trading hours.
  - Most markets limit their regular trading hours.
  - Should markets be open around the clock?

# Market information systems

It is of utmost important that orders are not lost and that order instructions are understood.

- Ticker symbols
- Order routing systems
- Order presentation systems
- Messaging systems

- The information created by trading is valuable.
- Market data systems report trades to the public
- Broadcast services
  - Price and sale feeds
  - Ticker tapes
  - Quotation feeds
- Transparency is a key feature of markets.
  - Ex ante vs. ex post transparency

# Market maker obligations

- Provide quotes during trading hours
- Offer "best execution"
- Report trades in a timely manner
- Fair communication
- No churning

Thank You..!



### Journal of Accounting & Marketing

S COMPLETE STATE OF S

Open Access



#### Related Journals

- Journal of Accounting and Marketing
- International Journal of Accounting Research





### Journal of Accounting & Marketing

Open Access





2nd International Conference on Business Economics and Management



