

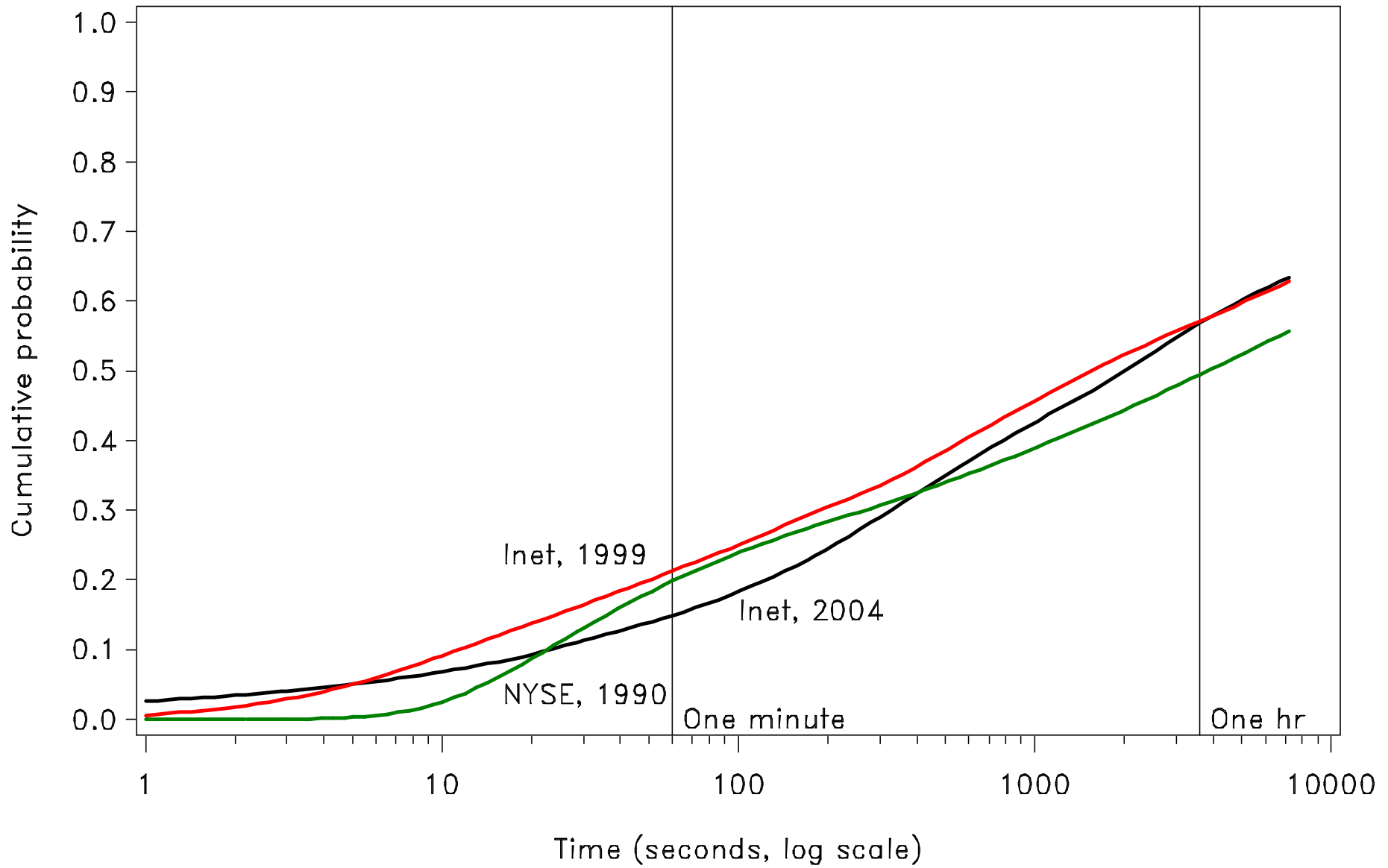
The acceleration of limit orders

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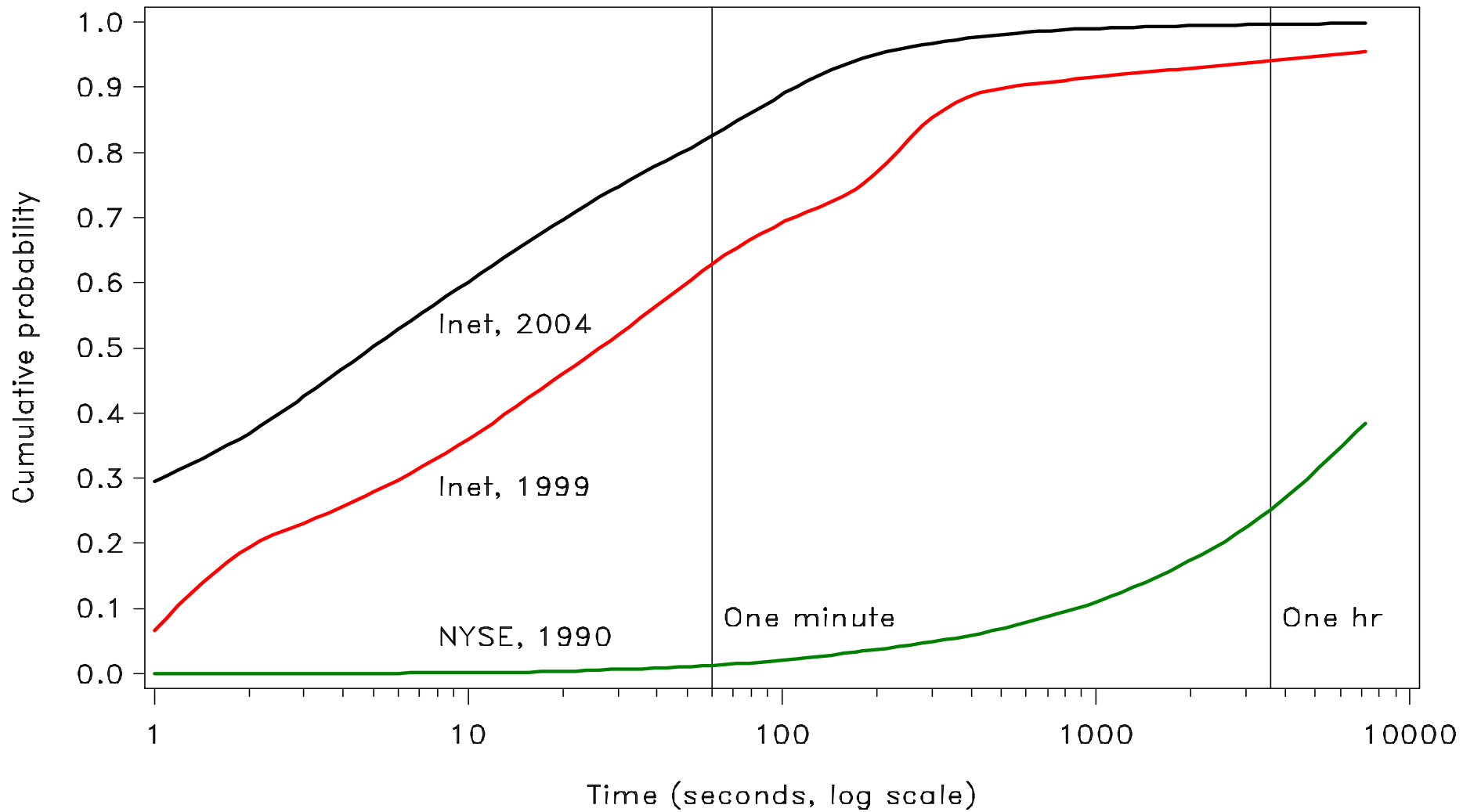
Limit order activity in three samples

- New York Stock Exchange (NYSE) 1990-1991
 - Tick size = $\$1/8$ ($\$0.125$)
 - 150 firms
- Inet (“Island”), 1999
 - 300 Nasdaq (“over the counter”) firms
 - Tick size = $\$1/16$ ($\$0.0625$)
- Inet, 2004
 - 100 Nasdaq firms
 - Tick size = $\$0.01$
- How long do we have to wait to get an execution?

Executions



Cancellations



Lessons

- ❑ Customer bids and asks vanish more quickly than those traditionally supplied by dealers.
 - Customers are *not* patient suppliers of liquidity.
- ❑ The high rate of limit order cancellation suggests
 - Limit orders are costly to expose.
 - The fleeting exposure of limit orders *hints* at a desire to trade, but without committing to sustained visibility.
 - Order interactions are increasingly “blind”.