

Abstract

This paper investigates the quote decision of the specialist on the NYSE. It is believed that the quote decision will affect many aspects on the trading strategies of different types of market participants, such as informed traders, liquidity traders, and market makers themselves, and on security price characteristics, such as volatility, the price evolution path, the spread size, and the spread pattern. Although the bid-ask spread behavior has been broadly explored in theories and empirical studies within the market microstructure area, there are few research works concentrating on the investigation of fundamental elements of a quote, i.e., the bid-ask prices and associated sizes. Therefore, the theoretical models and empirical estimation show how a specialist decides his bid-ask prices and sizes in this paper.

Key Words : Bid-Ask Spread, Bid-Ask Size, Specialist, Market Microstructure