

Market liquidity

- ▶ Is function of:
 - ▶ **Tightness**: the difference between trade price and actual price, or the accepted price for immediacy in resolving the trade
 - ▶ **Depth**: the volume which can be traded at the current price level
 - ▶ **Resilience**: the speed with which pricing errors caused by uninformative order-flow shocks are corrected or neutralized in the market
- ▶ Research:
 - ▶ very much based upon equity markets, much less on bond, forex or derivative markets
 - ▶ often using one measure of liquidity, or without proper definition of liquidity measure



EU post-crisis market rules and impact on ...

	Financial stability	Liquidity	Investor protection
CRD IV	✓	✗	?
FTT	?	✗✗	
MiFID II/MiFIR	✓	✓	✓
EMIR	✓ (if well regulated)	✓ (if more standardised)	✓
CRA I-II-III	✓	✓	
Short selling	✓	✗	✓
Market abuse		✗✗	✗

