The Effect of Electronic Trading on Market Volatility and Liquidity: Evidence on Amman Stock Exchange

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(Abstract)

This study investigates the impact of electronic trading system on the market volatility and liquidity, in the Amman Stock Exchange (ASE), for the period from January, 2nd 1996 through December, 31st 2003.

The thesis uses the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model, to test the volatility level in the ASE market. Furthermore, the thesis examines liquidity of the ASE market, through 'Trading Volume' which it considered the main determinant of liquidity.

Empirical results using GARCH model, show a negative relationship between volatility and electronic trading system. On the other hand, liquidity was positively related to the adoption of electronic trading system, depending on the daily volume of trade in the ASE market.

Keywords: ASE, Electronic Trading System, Volatility, Liquidity, GARCH model, Trading Volume.