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QUANTITATIVE INVESTMENT ENGINEERING

ABSTRACT – DISSERTATION

2005 Dr. Harald Henke

TRADING SYSTEMS, VOLATILITY, AND THE REGULATION OF STOCK MARKETS: AN INVESTIGATION OF THE MICROSTRUCTURE OF THE WARSAW STOCK EXCHANGE

The present thesis is a microstructure study of the Warsaw Stock Exchange (WSE). In the first part, I find evidence in favor of the so-called mixture of distributions hypothesis according to which the time-variant daily order flow translates into volatility persistence in stock returns.

In part two, I show that the introduction of continuous trading on the WSE is neither accompanied by higher liquidity/price efficiency nor by persistent abnormal returns of continuously listed stocks upon transfers. The third part demonstrates that continuous trading became more attractive and liquidity in this system increased due to the appearance of a large number of institutional traders after the Polish pension reform. In the fourth and final part I show that price limits in the call auction system of the WSE constitute a costly regulation by causing excessive volatility on days after limit hits and positive autocorrelation in stock returns. I do not find significant advantages of this regulation.

Quoniam Asset Management GmbH

Frankfurt am Main // London
www.quoniam.com

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