Demand for Immediacy: Time Is Money

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Abstract

Do traders in securities markets value immediacy of execution? Theoretical literature on dealer markets did not have to deal with this question, thus until recently this question was mostly ignored. Recent interest in the time-to-execution as measure of market quality in order driven markets coincided produced empirical research on this topic. Lack of theoretical models made it difficult to test the importance of immediacy. We build on recent theoretical developments to construct an estimation procedure that tests the effect of immediacy directly. Using data from the Tel Aviv Stock Exchange we show that the expected time-to-execution is an important determinant of order submission strategies. Moreover, the qualitatively similar results that we get for stocks and government bonds, that are traded in the same platform, suggest that immediacy considerations have a significant effect on the price process regardless of information asymmetry. Finally, our results corroborate predictions of theoretical models of order driven markets.