



ALGORITHMIC TRADING: LIQUIDITY AND VOLATILITY

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ABSTRACT

Algorithmic Trading (AT) has been increasing sharply in the Stock Exchange of Thailand (SET) over the past 3 years. Is it beneficial to the welfare of all participants? We provide the study that investigates the impact of algorithmic trading to the liquidity and volatility of the SET market. The finding indicates that the quoted spread is improved while the quoted depth is worsened but the magnitudes of both indicators are not economically significant. For the volatility, we found the positive relationship between AT and volatility. The finding also indicates that AT is an endogenous choice made by traders which volatility is one of the factors that are considered. Thus, AT helps improve the welfare of participants by increasing the liquidity and lower the monitoring cost in the high volatility stocks. We expect higher quality of the SET market by the encouragement of using AT.

Keywords: Algorithmic Trading, Liquidity, Volatility, SET