The Intraday Trading Behavior of TAIEX Option in Taiwan Futures Exchange

Weiyu Kuo∗ and Chia-Hua Chang

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Abstract

We study the intraday behavior of bid-ask spreads for actively traded TAIEX option in Taiwan. A study of quality of price quotation market makers provide is important because the market makers have the responsibilities to keep trading costs low and promote price discovery. Due to the observed wider price quotation from market makers, we find that market makers offer inefficient price quotations to fulfill their obligations under requirement of market making. Moreover, ways of quotation market makers choose, indeed, affect the price quotation of market makers. We also find foreign institutional investors (QFIIIs) and market makers bear lower execution cost when they deal on TAIEX option market. Overall, despite the large trading volume and increasing liquidity in TAIEX option, our results suggest that market makers do not play an important role to the market liquidity of TAIEX option market as we thought previously.

∗ Correspondence to: Weiyu Kuo, Department of International Trade, National Chengchi University, 64, Sec. 2, Tz-Nan Road, Taipei 116, Taiwan.

∗ Weiyu Kuo is an associate professor of the Department of International Trade, National Chengchi University.