

Title: True Liquidity and Fundamental Prices: US Tick Size Pilot

Speaker: Prof. Tarun Chordia, Emory University

Area: F&A

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Abstract:

We develop a big data methodology to estimate true stock prices and liquidity, explicitly accounting for rounding effects from the minimum tick size. Applying this approach to the tick size pilot (TSP), which increased tick size for randomly selected stocks, we find that the TSP boosts market-maker profits but does not enhance liquidity. This result aligns with theoretical predictions but contrasts with prior empirical studies. Our rounding-adjusted liquidity measures, unlike traditional metrics, capture TSP-induced trading restrictions and reduced inventory holdings of market-makers and exhibit less dispersion across exchanges, thus validating our methodology and the accuracy of our refined liquidity measures.

Speaker Profile:



Professor Tarun Chordia received his PhD in finance from the Anderson School, UCLA, in 1993. Prior to his doctoral studies, he worked for Citibank as a relationship and credit manager in the Financial Institutions Group. He has been an Assistant Professor of Finance at the Owen Graduate School of Management, Vanderbilt University from 1993 to 2000. He joined the Goizueta Business School at Emory University in 2000.

Professor Chordia's research is grounded in both theory and empirical methods and spans a diverse area of financial economics. Professor Chordia has published extensively in the top finance journals, including Journal of Finance, Journal of Financial Economics, the Review of Financial Studies, Journal of Business, Journal of Financial and Quantitative Analysis, Review of Finance, and Management Science. He has received numerous awards for his research on empirical asset pricing and market microstructure. He has been the managing editor of the Journal of Financial Markets from 2013 to 2022 and a past associate editor of Review of Financial Studies. He is on the program committee for numerous conferences and is a referee for numerous journals.

Webpage Link: <https://goizueta.emory.edu/faculty/profiles/tarun-chordia>