

# The impact of order flow: A copula approach

Yoshihiro Kitamura\*

Faculty of Economics, University of Toyama,  
3190 Gofuku, Toyama 930-8555, JAPAN

## Abstract

Using the copula function, we obtain the time-varying impact of order flows on returns in foreign exchange markets and examine whether that impact is affected by market conditions such as numbers of informed and liquidity traders. Our result indicates that the impact of order flow increases with more informed trading and, conversely, decreases with more liquidity trading. We also find that the effect of informed trading on that impact is larger than that of liquidity trading.

*JEL classification:* F31; F33; G15

*Keywords:* Copula; Exchange rate; Order flow

---

\* Tel.: +81 76 445 6475. *E-mail address:* kitamu@gmail.com

This research was supported by Grant-in-Aid for Young Scientists (B: 19730216) of Japan Society for the Promotion of Science.