

# **A microstructural effect of Japanese official intervention in the yen/dollar foreign exchange market**

by

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## **Abstract**

This study adopts a microstructural approach to examine the effect of Japanese official intervention in the yen/dollar foreign exchange market. Our empirical results show that the number of informed traders after the series of interventions is significantly larger, and the degree of the market maker's reaction to the order flow and the cost of the informed trading in the post-intervention term are significantly smaller than those in the pre-intervention one. This implies that the frequent and intense intervention promotes the competition among the informed traders. We interpret that this competition lowers the degree of information asymmetry in the market.

**Keywords:** Intervention of foreign exchange market; microstructure in foreign exchange market; SMM

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