Strategic Liquidity Provision in High Frequency Trading [*]

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Abstract

We construct a Kyle (1985)-type market model in which fast and slow traders are present. We will show with numerical calculations that a fast trader who has an advantage in trade frequency plays a role as a liquidity provider in the sense that he takes the opposite position against a slow trader if the difference in frequency is significant. Our theoretical results seem generally consistent with empirical results reported by previous studies.

Keywords: High frequency trading; Market microstructure; Strategic liquidity provision.

JEL classification: D43, D82, G12

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