

**BID-ASK SPREADS UNDER AUCTION AND SPECIALIST MARKET
STRUCTURES: EVIDENCE FROM THE ITALIAN BOURSE**

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Abstract

Several studies find that bid-ask spreads for stocks listed on the NYSE are lower than for stocks listed on Nasdaq. However, the nature of trading on the NYSE, which comprises a specialist and a limit order book, complicates the comparison. In 2001, a structural change was implemented on the Italian Bourse. Many stocks that traded in an auction market switched to a specialist market, where the specialist controls the order book. Our results indicate that spreads tightened when stocks moved to the specialist market. This reduction in spreads is robust to market capitalization, industry affiliation and the event window around the structural change. Using a third market to control for market wide factors, we confirm the reduction in spreads. The specialists' ability to offer price improvement further lowers the cost of executing trades. Specialist market structures are more advantageous to market participants.