

Switching to a Temporary Call Auction in Times of High Uncertainty[†]

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ABSTRACT

Madhavan (1992, *The Journal of Finance*, 47, 2, 607-641) recommends a temporary switch to a call auction rather than a trading halt in times of market stress. He predicts the call auction to aggregate information more efficiently and to facilitate the resumption of the continuous session. In this paper, we test the properties of the switching mechanism proposed by Madhavan using data from the Spanish Stock Exchange (SSE). The SSE implements rule-based call auctions to stabilize prices. On the positive side, we find there is price learning during the auction, and price reversals dominate price continuations after the auction. On the negative side, we conclude rule-based auctions do not calm the market and do not reduce information asymmetries, except for small-caps. Our findings suggest the switching mechanism performs better with thinly traded stocks.

Keywords: call auction, price learning, price reversals, price continuations, information asymmetry, thinly-traded stocks.

JEL Classification: G10; G14.