

**DECOMPOSING THE BID-ASK SPREAD: A CROSS-MARKET MODEL
USING OPTIONS DATA**

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ABSTRACT

We develop the cross-market model, an extension of Huang and Stoll (1997) that captures information from trade flows in the options market. The cross-market model reveals that the inclusion of information from the options market results in a significant increase in the estimated adverse information component. This increase is observed irrespective of the degree of option leverage. Further, intraday variation in stock bid-ask spread components are affected by the stock trade size and the extent of imbalance in information-based option trades.

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