

We test the conjecture that the specialist system on the New York Stock Exchange (NYSE) provides more resilient liquidity services than the NASDAQ dealer market for riskier stocks and in times of high return volatility when adverse selection and inventory risks are high. We motivate our conjecture from the observation that there is a designated specialist for each stock on the NYSE who is directly responsible for maintaining a reasonable level of liquidity (i.e., the bid-ask spread) as the 'liquidity provider of last resort,' whereas there is no such designated dealer on NASDAQ. Empirical evidence is consistent with our conjecture.