Relation between bid-ask spread and volatility in financial markets

JEAN-PHILIPPE BOUCHAUD, Service de Physique de l’Etat Condense, CEA-Saclay, France, J. KOCKELKOREN, M. POTTERS, M. WYART — We establish empirically a linear relation between the bid-ask spread and the volatility per trade in stock markets. We give a theoretical argument explaining this relation and why it should hold on all electronic markets.

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