

Reasons of Change in Security Prices and Price Volatility: An Analysis of the European Carbon Futures Market

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Abstract : A micro structural pricing model is proposed in which price components account for learning by incorporating changing expectations of the trading intensity and the risk level of incoming trades. An analysis of European carbon futures transactions finds expected trading intensity to increase the information component and decrease the liquidity component of price changes, but at different rates. Among the results, the expected persistence in trading intensity explains the majority of the auto correlations in the level and the conditional volatility of price changes, helps predict hourly patterns in the bid-ask spread and differentiates between the impact of buy versus sell and continuing versus reversing trades.

Keywords : CO2 emission allowances, market microstructure, duration, price discovery

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