1052-91-260 **Ioanid Rosu*** (irosu@uchicago.edu), Chicago, IL 60637. *Liquidity and Information in Order Driven Markets.*

This paper analyzes an order-driven market where liquidity traders and informed traders freely choose between limit and market orders. In equilibrium, informed traders submit a market order only when their privately observed fundamental value of the asset is far away from the current public price; otherwise they submit a limit order. The model generates a rich set of relations among spreads, trading activity, volatility, and the price impact of a trade: (i) consistent with research in other types of markets, higher fundamental volatility and smaller trading activity generate larger spreads; (ii) a higher percentage of informed traders surprisingly generates smaller spreads; (iii) limit orders carry information: e.g., the price impact of a buy limit order is usually about four times smaller than that of a buy market order, although in rare cases it can have zero or even negative price impact; (iv) the price impact of a trade decreases in the size of the spread; and (v) the average size of price impact does not depend on the number of informed traders. The results suggest that the ratio of the intra-day price volatility to the average bid-ask spread can be used to estimate the probability of informed trading. (Received August 30, 2009)