

Foreword

Today, the majority of large international stock exchanges operates electronic trading systems and abandons more and more floor trading which relies upon specialists and market makers. The preferred trading mechanism is the so-called open limit order book, which induces continuous double auction trading without any market participants designated to facilitate trading through their own trading activity. Trading in these market structures is considered the more attractive the smaller the spread between the highest buy and the lowest sell limit order, i.e. the more liquid a market is. This leads to the question which market participants are willing to enter buy and sell limit orders in the open limit order book to enable liquid trading. Traditional theoretical literature concludes that exclusively uninformed traders enter limit orders and provide liquidity while impatient informed traders enter liquidity-consuming market orders. Recent, primarily experimental studies question this rigid distinction.

This is the starting point for Ms Hachmeister's thesis, when she analyzes – based upon an individually compiled extensive set of transaction data – informed traders' order type choice. To my knowledge there exists no comparable analysis of order selection strategy by informed market participants in equity markets in Germany. Thus, this thesis (surprisingly) enters unknown scientific territory. In several, also explorative analyses she documents a detailed picture of order type choice of institutional investors in the German equity market. The findings result in an objective state of knowledge which forms the basis for substantiated recommendations for the design of exchanges, which in turn should result in further efficiency gains in German exchange trading.

Ms. Hachmeister fully achieves the objectives of her dissertation. The analysis contains many intriguing results and is written in a way that the reader will be pleased to read from the start to the end. I wish for the dissertation to gain the wide dissemination it deserves.

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