41 TRADING COSTS AND ELECTRONIC MARKETS

1. Algorithms are least likely to adapt to market fragmentation by incorporating:

   (A) liquidity aggregation capabilities

   (B) basket trading capabilities

   (C) intelligent smart order routing capabilities

2. A trader that has advance information about a large buy-side order is most likely to attempt to profit from the large trade's market impact through the market manipulation known as:

   (A) front running.

   (B) quote stuffing.

   (C) gunning the market.

3. The effective spread on Amplicity shares is closest to:

   (A) $0.02.

   (B) $0.06.

   (C) $0.12.

4. Which of the following statements about effective spread is most accurate? Effective spread:

   (A) is a good indicator of trade performance when a large order is split into smaller orders.

   (B) captures the opportunity cost of trade.

   (C) does not account for slippage or delay costs when part of the order does not get filled at desired prices.

5. Which of Chabbria's statements about electronic markets are accurate?

   (A) Statement 1 only.

   (B) Statement 2 only.

   (C) Both statements are accurate.

6. Thomas would most appropriately respond to Chabbria's question by responding that flickering quotes are orders that:
   (A) are submitted and then cancelled immediately.
   (B) randomly switch between exposed and hidden mode.
   (C) are hidden, but can be revealed by an algorithm designed to find them.

7. An electronic trader that tries to profit by exploiting the option value of standing orders is most accurately categorized as an electronic:
   (A) quote matcher.
   (B) arbitrageur.
   (C) front runner.

8. An electronic trading strategy that is common when dealers are willing to trade at better prices than they quote, most accurately describes:
   (A) flickering quotes.
   (B) hidden orders.
   (C) leapfrogging.

9. Which of the following trading costs results when an order is not filled?
   (A) Opportunity costs.
   (B) Price impact costs.
   (C) Market impact costs.

10. Suppose a trader is quoted a market bid price of $16.00 and an ask of $16.10. The execution price of a sell order is $16.03. What is the effective spread?
    (A) $0.04.
    (B) $0.03.
    (C) $0.02.

11. A trader that places numerous false orders on one side of the market in order to incite other market participants into trading with a real order on the other side of the market is most likely to be accused of:
    (A) layering.
    (B) wash trading.
    (C) gunning the market.

12. Which of the following is most accurate regarding the volume-weighted average price (VWAP) intraday benchmark? VWAP is applicable:
    (A) when rebalancing a portfolio over the day with buy and sell orders.
    (B) in market environments that are potentially volatile throughout the day.
    (C) when wishing to exclude potential trade outliers.

13. If the volume-weighted average price (VWAP) during a day was $21 and 100 shares were bought at $20.40, which of the following statements regarding the costs of trading is most accurate?

(A) The implicit costs are $60.

(B) The implicit costs are -$60

(C) The explicit costs are -$60.

14. Suppose a trader is quoted a market bid price of $30.00 and an ask of $30.07. The execution price of a buy order is $30.04. What is the effective spread?

(A) $0.01.

(B) $0.06.

(C) $0.02.

15. A trader that arranges for the same security to be traded among several commonly controlled accounts to create the impression of market activity at a particular price is most likely to be accused of:

(A) gunning the market.

(B) quote stuffing.

(C) wash trading.

16. Suppose that a market manipulator sells a particular security quickly to push prices down in order to trigger stop-loss sell orders that other market participants have in place, in order for the manipulator to profit by repurchasing that security at lower prices. This abusive trading practices is most likely to be classified as:

(A) squeezing.

(B) gunning.

(C) cornering.

17. Which of the following trading costs is NOT an explicit cost?

(A) Market impact costs.

(B) Stamp duties.

(C) Commissions.

18. Which of the following implementation shortfall components is NOT influenced by market-wide movements?

(A) Missed trade opportunity cost.

(B) Explicit costs.

(C) Realized profit and loss.

19. Suppose a trader is quoted a market bid price of $40.40 and an ask of $40.49. The execution price of a buy order is $40.47. What is the effective spread?

    (A) $0.025.

    (B) $0.050.

    (C) $0.090.

20. The results of liquidity aggregation are most likely to be referred to as a:

    (A) "parent order".

    (B) "dark pool".

    (C) "super book".