**End of Chapter Questions for Chapter 2, Finance**

1. Why is price discovery considered a primary function of a stock exchange? Discuss why high quality price discovery is considered difficult for a market to achieve.
2. What is quantity discovery and how is it related to the transparency and structure of equity markets?
3. What is the difference between information and liquidity shocks? Discuss the short-term and long-term effects of these shocks on stock prices.
4. Why is intra-day stock volatility accentuated compared to longer-term volatility? What is the relationship between intra-day volatility and price discovery? How do divergent expectations (versus homogeneous expectations) effect volatility?
5. How would you define the liquidity of a stock market? What is the difference between posted (revealed) liquidity and hidden (latent) liquidity?
6. What is the difference between a market and a limit order? What are the advantages and disadvantages of each? What are some common order types other than market and limit orders? Discuss the situations under which a trader would choose to use different types of orders.
7. What are trading costs? What is the difference between implicit and explicit trading costs?
8. Discuss the main types of implicit trading costs: the bid-ask spread, opportunity costs/execution delays and market impact costs. What are some market conditions under which you would observe an increase in these costs?
9. a) What is the difference between brokers and dealers? Discuss the function of each group in the trading process.

b) What is the difference between sell-side traders and buy-side traders? Discuss the function of each group in the trading process.

1. Discuss the main differences between Continuous Order Driven and Continuous Quote Driven markets.
2. Discuss the main differences between
3. Continuous and Call Auction markets
4. What is a Hybrid Market and how is it usually designed?
5. a) In Exhibit 2, what would be the average execution price of a market buy order of 20 round lots?

b) In Exhibit 2, what would be the average execution price of a market sell order of 25 round lots?

1. a) In Exhibit 4, assume a new buy order comes in at $24.51 for 20 round lots. What would be the new indicative price and the new maximum number of shares that would be traded?
2. In Exhibit 4, assume a new sell order comes in at $24.49 for 20 round lots. What would be the new indicative price and the new maximum number of shares that would be traded?
3. What has been the impact of regulation on the structure of equity markets? Discuss the most important trends.