A Test of Market Microstructure: Evidence from Nigerian Bourse

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Abstract
This study seeks to empirically examine the test of market microstructure in Nigerian capital market. The goal of this study is to ascertain the extent to which market microstructure predicts prices of securities in the Nigerian bourse.

The study extends Copeland and Galai (1983) model and adopts Glosten and Miligrom (1985) model. They opined that the determination of the bid – ask spread can be demonstrated by assuming that an asset can take two possible values, i.e. a value that is high, \( V^H \); and a value that is low, \( V^L \) with probability that is homogeneous to the two possible values.

This model was able to predict exactly thirteen securities prices which is 29.5% of the sample of the study. In the same vein, the model was able to predict prices of stocks with a minimal differentials hovering between one percent to five percent which is 14.9% of the sample of the study. The study therefore recommends that awareness needs to be created for investors and potential investors who daily flood the market without adequate information of the dynamics of price changes. A strong formal system of market microstructure education is apt in our tertiary institutions and curriculum of most finance oriented professional bodies.

Keywords: Capital Market, Microstructure, Bid-Ask Spread, Securities

JEL Classification: O16, L1, G14, D63

Paper Classification: Research Paper