Macroeconomic Announcements and Information
Asymmetry in the Foreign Exchange Market

Yu-Lun Chen, Yin-Feng Gau*, and Ching-Yu Wang

Abstract
This paper examine the variation in the level of information asymmetry in an electronic
limit-order foreign exchange market. Using the tick-by-tick data of quotes and
transactions on the Electronic Broking Services (EBS), we find adverse selection cost
for the trading of Euro/dollar tends to be lower when the trading is heavier within a day.
We recognize that, following macroeconomic announcements, the adverse selection
cost decreases, but order processing and inventory cost increases.

Keywords: Bid-ask spread; Adverse selection cost; Information asymmetry; Electronic
broking system; Foreign exchange market

JEL Classification: F31, G14

* Yu-Lun Chen is at Department of Finance, Chung Yuan Christian University; Yin-Feng Gau (the
corresponding author) is at Department of Finance, National Central University; Ching-Yu Wang is at
Department of International Business, National Chi-Nan University. Address of correspondence:
Yin-Feng Gau, Department of Finance, National Central University, 300 Jhongda Rd., Jhongli, Taoyuan
320, Taiwan, phone: 886-3-4227151 ext. 66263, fax: 886-3-4252961, e-mail: yfgay@ncu.edu.tw. The
authors are grateful to the ICAP for providing the EBS tick-by-tick exchange rate data.