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MARKET LIQUIDITY OF FINANCIAL DERIVATIVES: APPROACHES TO ITS ESSENCE

The article deals with the main approaches in the market liquidity, in particular, static approach and market microstructure theory. The paper describes the main characteristics of market liquidity: immediacy of the transaction, trading volume, minimal Market impact of prices, minimum transaction costs. In this paper we review the market liquidity in terms of market microstructure theory.

The given analysis allows us to formulate some conclusions concerning indicators of market liquidity of financial derivatives:

static approach based on statistical data such as turnover, bid-ask spread or other data and ITS analysis. Specifically, the first approach reviews the impact of trading volume on executions price in other similar conditions (market impact) that reflects only one side, though, and most important for the analysis of market liquidity:

however, in order to effectively influence the demand and supply of derivatives market should take into account the dynamic indicators of market liquidity. Market microstructure theory is determining the nature of the market liquidity and its individual characteristics:

market microstructure theory selects such basic measures of market liquidity: market depth (possible trading volume, which has no effect of the price), tightness (cost of changing positions and shows distances for transactions price from the average price) and resilience (reflects period of time which prices reach a new equilibrium level after heavy price fluctuations caused by large volumes of transactions).

The subject of the next study presents the analysis and quantitative estimation of indicators of market liquidity in emerging markets.