

Market Microstructure Matters when Imposing a Tobin Tax: Experimental Evidence and Stylized Facts

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Trading in currency markets is dominated by two microstructures: exchanges with market makers and OTC-markets without market makers. Using laboratory experiments we test whether the impact of a Tobin tax is different in these two market microstructures. We find that (i) in markets without market makers an unilaterally imposed Tobin tax (i.e., a tax haven exists) increases volatility. (ii) In contrast, in markets with market makers we observe a decrease in volatility in unilaterally-taxed markets. (iii) An encompassing Tobin tax has no impact on volatility in either setting. We then examine how “stylized facts”, namely fat tails and volatility clustering, are affected by different tax regimes. We find that leptokurtosis of price returns is highest and clustered volatility is weakest in unilaterally taxed markets (tax havens exist). Instead, tails are slimmest and volatility clustering is strongest in tax havens. When an encompassing financial transaction tax is levied stylized facts hardly change compared to a scenario with no tax on all markets.