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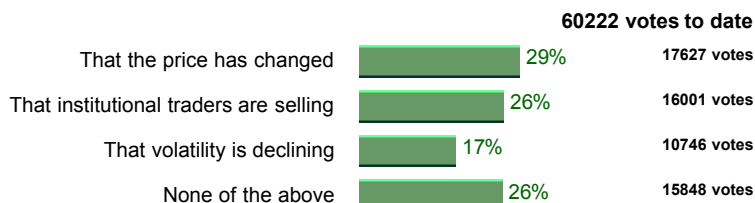
## Finance Quiz

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**In the short term, what erroneous conclusion might a stock's "bid-ask bounce" tempt you to make?**

How respondents have answered:



The correct answer is:

**That the price has changed**

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"Bid-ask bounce" is one of the tricky nooks and crannies on Wall Street.

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Especially for smaller, less liquid stocks, bid-ask bounce can create the illusion of a price change when in fact there wasn't really a change. Recall that in a market, interested buyers of a stock post the "bid," and interested sellers post the ask. Now consider a stock that closed yesterday at 90 cents, with a bid of 90 cents and an ask of 1 dollar. Today, there is absolutely no news for the stock, but it does trade once: a buy order comes through, at the ask of 1 dollar. The price of the stock at today's close then becomes 1 dollar, an 11% increase from yesterday. Yet the market's opinion of the stock--what it's willing to pay to buy the shares, and what it's willing to accept to sell the shares, hasn't changed.

**Tip:** Bid-ask bounce is mostly an issue for small stocks, where the bid-ask spread is itself a significant percentage of the price of the stock. (For some stocks priced under 1 dollar, the bid-ask spread can be 10% or more of the stock's price).<sup>1</sup>

More on the bid-ask bounce:

- [Price Information and Illiquid Stocks](#) - CapitalMarket.com
- [Choosing Volatility Metrics](#) - SMARTS
- [Impact of bid-ask bounce on measuring prices on the Australian Stock Exchange](#) - University of Sydney, New South Wales

<sup>1</sup> See Singal, Vijay, *Beyond the Random Walk: A Guide to Stock Market Anomalies and Low-Risk Investing* (New York: Oxford University Press, 2004), p. 60. For example, as of market close on Friday, May 7, 2004 [ARJOF.OB](#) showed a bid-ask spread of 10 cents, with a price of 70 cents.

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