Bid-Ask spread and liquidity

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Video lecture: https://youtu.be/CEV-F3j9Kos

Bid and ask prices

- Actual trading takes place on a trading board (or trading floor)
- For each security, traders can enter **bid prices**
  - Bid is the price at which trades are willing to buy
  - Each bid price would have a corresponding number of shares that the traders are willing to buy at their bid price
- For each security, traders can enter **ask prices**
  - Ask is the price at which trades are willing to sell
  - Each ask price would have a corresponding number of shares that the traders are willing to sell at their ask price

Actual trade - BUY

- You can enter a bid price and wait to buy (**Limit order**)
- You can buy at the best selling price available (**Market order**)

Actual trade - SELL

- You can enter an ask price and wait to sell (**Limit order**)
- You can sell at the best buying price available (**Market order**)

Liquidity

1. You buy at the best selling price (buy at the best ask price)
2. Then, you sell at the best buying price (sell at the best bid price)
3. The difference between the Ask and the Bid is your **cost of liquidity**.