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DETECTING INFORMED TRADING AROUND HOSPITALITY ACQUISITION ANNOUNCEMENTS USING THE MARKET MICROSTRUCTURE APPROACH

**Seonghee Oak
and
William Andrew**

When managers perceive an under- or overvaluation prior to the announcement of a hospitality acquisition payment, they may personally buy or sell their firm's shares. In addition to managers, other informed traders (e.g., value traders, technical traders, arbitrageurs) may undertake transactions through their personal accounts prior to announcing an acquisition payment. The results for informed trading show that a market maker tries to avoid losses inflicted by informed traders. For cash- or stock-financed acquisitions, the bid-ask spread does not change, but the ask or bid depth narrows significantly prior to the acquisition payment announcement. The specialists reduce the bid depth to keep an informed trader from selling in the case of a stock-financed acquisition. The specialists reduce the ask depth to keep an informed trader from buying in instances of cash- and mixed-financed acquisitions. While the bid-ask spreads do not reveal significant changes prior to the acquisition payment announcement, the depths narrow in the same period because the depth measures informed buying and selling separately as the ask and bid depths, but the spread includes both informed buying and selling together.