

# Assessing the Nature of Pricing Inefficiencies via Realized Measures\*

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## Abstract

We use a parametric microstructure model specified at the highest frequency as a starting point to derive highly efficiency realized kernels estimators of the integrated volatility. Our estimators are of cross-sample type and make an efficient use of the data: the samples available at all periods are used to estimate the integrated volatility of each period. We suggest a method-of-moment approach to estimate the parameters of the specified model for the latent microstructure noise process. An empirical study carried out on the 15 stocks of the Dow Jones Industrials confirms that the microstructure noise is usually far from being IID and is possibly correlated with the latent returns.

Keywords: Microstructure Noise, Realized Kernel, Integrated Volatility, Method of Moment.

JEL Classification: C13, C14, G14

- Comments are Welcome -

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