Course Description:

The seminar will consider selected topics in equity market microstructure, with attention paid to their microeconomics underpinning. Particular focus will be given to the way in which fundamental information, liquidity needs, and noise trading interact in the generation of trades and, more specifically, to how buy/sell orders are written and translated into trades in the context of alternative market structures. Much attention will be given to issues including liquidity formation, price discovery, and price volatility. Market efficiency and public policy issues concerning the regulation of market structure will also be discussed. A computerized trading simulation software (TraderEx) will be presented and an in-class, networked trading session conducted.

Suggested Course Materials:


Outline:

1. **(8/29) Introduction to course, thoughts about market efficiency, and reflections on teaching Economics and Finance**


No class 9/5 as follows Monday’s schedule.

2. (9/12, 9/26) Overview of Market Microstructure


No class 9/19

3. (10/3) Continuous Order Driven Markets

*The Equity Trader Course*, Chapter 3.


4. (10/10) Periodic Call Auctions

*The Equity Trader Course*, Chapter 4.


5. (10/17) Price Discovery


6. (10/24, 10/31) Volatility
“The Evolving Quality of the Equity Markets: An Intraday Volatility Analysis,” Alan, Hua and Schwartz, paper in process.


7. (11/7) Liquidity


(11/21 Class meets in the SFSC, Wasserman Trading Floor)

The Equity Trader Course, Chapter 1.


9. (12/5) Implications for Asset Pricing


10. (12/12) Discussion (including Market Structure, Market Efficiency, and Public Policy Issues

Micro Markets, Chapters 7 and 8.

11. (12/19) Final Exam