Doctoral Course – VGSF

MARKET MICROSTRUCTURE

Summer 2016

Professor Thomas P. Gehrig
thomas.gehrig@univie.ac.at
http://homepage.univie.ac.at/thomas.gehrig/

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Course Outline

Aims of the Course:

The aim of the course is to develop a deeper understanding of the “invisible hand” of the Walrasian auctioneer in decentralized market institutions. Market microstructure applies to the whole spectrum from well-organized liquid and automated financial markets all the way to illiquid over-the-counter markets such as real estate, labor markets for specialists, or even art markets. It discusses how the microstructure of trading does affect price discovery and price informativeness, price volatility and, hence, individual behavior, which again determines market participation and market liquidity.

The course introduced the basic measures of (il)liquidity and price informativeness used in empirical work and develops (and extends) the basic theoretical work horse models (Glosten/Milgron, Kyle) to structure the analysis of their empirical regularities.

The main part of the course discusses the role of trading rules and transparency on individual behavior and its implication on price discovery. This allows a better understanding of the relative advantages of the many different real world market designs. This provides a basis for the discussion of topical phenomena such as high frequency trading, dark pools and cross-market trading, both from the perspective of individual strategy as well as from a societal welfare perspective. Can the invisible hand be trusted? Are there needs for corrective regulatory action, and if so, which?

The course will be followed by a special topics course in the following academic year based on state of the art research papers.
Suggested Structure of the Course:

1. Introduction
2. Measuring Liquidity

Required: Theory

3. Financial Markets Equilibrium
4. Price Determination and Liquidity in Dealer Markets: Bid Ask Spreads
5. Price Determination and Liquidity in Auction Markets: Limit Order Markets
6. Price Determination and Liquidity in Fragmented Markets: Networks and OTC
7. Determinants of Market Liquidity


8. Policy and Market Design
   - Transparency
   - Dark Pools
   - High Frequency Trading
   - Trading halts

Choice: Implications for Asset Pricing and Corporate Finance:

9. Liquidity and Asset Prices
10. Liquidity, Price Discovery and Corporate Policy

Suggested Background Literature:

Textbooks:

Articles:


A more adapted list to the specific interests of the participants (in the second part) will be distributed during the course.

**Organization:**

The course takes place from 9:45-11:15 at Seminarraum 4 (first floor), Oskar-Morgenstern-Platz 1. Evaluation will be based on worked-out problems distributed and discussed in class.

For administrative questions, please, contact Sigrid Hopf at sigrid.hopf@univie.ac.at or Adrian Baron at adrian.baron@wu.ac.at.