BACKGROUND

Trading quality matters. On average, the best traders raise returns at institutional trading desks by over 0.5%, which is more than many active funds earn from stock-picking. What do top traders know that others don’t? This course covers the structure of trading in financial assets including equities, foreign exchange, commodities, and bonds. Students learn about market structures, sources and cost of liquidity, the price discovery process, and how these affect an asset’s expected return. All major points are supported with empirical evidence and real-world examples. Lessons are relevant to anyone who needs to trade or who might be involved in designing or regulating financial markets.

Students participate in three trading simulations, two of them in class. Students make a short presentation on the last day of class. Class discussion, assignments, and exams are in English.

TOPICS AND LEARNING GOALS

- **Market basics**: Who trades, when do they trade, what do they trade? What regular patterns are there in trading, bid-ask spreads, returns, and volatility?
- **Market structures**: Students learn the structure of dealership markets, limit-order markets, call markets, two-tier markets. The types of orders available in each type of market and the factors that drive order choice.
- **Trading practice**: Students simulate trading in dealership, OTC, and call markets, sometimes trading against each other in class.
- **The microeconomics of trading**: What determines the cost of liquidity? How does information get into security prices, and how does this process vary according to market conditions?
structure? What is “market transparency,” and is it always a good thing? Why are there so many extremely large asset-price moves, even in the absence of news surprises?

- **Influence of microstructure on asset pricing**: How are asset returns influenced by market microstructure features such as liquidity, transparency, and insider-trading rules? We discuss how do stop-loss orders help explain the profitability of carry-trade strategies in currency markets?

**BIBLIOGRAPHY**

**BACKGROUND, FINANCIAL MARKET STRUCTURES**

- **Equities**: Harris, *Trading and Exchanges*, Chapters 2 – 8, 24


**LIQUIDITY PROVISION AND BID-ASK SPREADS**


**ORDER CHOICE**


**ORDER FLOW, AND PRICE DISCOVERY**

MICROSTRUCTURE AND ASSET PRICING


SUGGESTED READINGS FOR CERTAIN MARKET DESIGN TOPICS

High-frequency trading


Designated Liquidity Provider?


Transparency


Insider Trading


**Circuit Breakers**


**Short-sale Constraints**


**Tick Size**


**Hidden Orders**


• Harris (1997), Order Exposure and Parasitic Traders, University of Southern California Working Paper.


**COURSE EVALUATION**

- Problem sets 25%
- Market-design presentation 25%
- Final exam (see note 2 below) 50%

**NOTES**

- **Participation**: Since the entire workshop is very short, failure to attend cumulatively more than half a day in the course will result in a failing grade and, thus, make sure to attend throughout the course and participate in class discussions.

- **The exam is not a take-home exam.** It will be held on *Sunday, April 3, 2016*.

**PRESENTATION TOPICS**

Pairs of students will each make a 10-minute in-class presentation evaluating whether a *specific market design* feature is suitable for a *specific financial market*. Presentation will include

- Clear recommendation
- Review of the market: history, size, etc.
- Synthesis of relevant academic research and how it applies to this market

At most one group per topic. Interesting market design features include

- Dark pools
- Circuit breakers
- Regulation or market design measures related to HFT
- Hidden orders
- Short-sale constraints
- Pre-trade transparency
- Post-trade transparency
- Tick size
- Insider trading
- Opening and/or closing call markets
- Designated liquidity provide
<table>
<thead>
<tr>
<th>Session Times</th>
<th>Sun. March 27</th>
<th>Monday March 28</th>
<th>Tuesday March 29</th>
<th>Wednesday March 30</th>
<th>Sunday April 3</th>
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<td><strong>Session 1</strong></td>
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<td>9:00 to 10:20</td>
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<td>Positive-feedback trading &amp; volatility</td>
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<td><strong>Session 2</strong></td>
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<td><strong>Session 3</strong></td>
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<td>13:00-14:20</td>
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<td>14:20-14:30</td>
<td>Break</td>
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<td>Break</td>
<td>Break</td>
<td>Final exam</td>
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<td>Assignment</td>
<td>Pick market and market design feature for project. Learn about your market</td>
<td>Summarize 3-4 academic papers related to market</td>
<td>Begin drafting market design presentation</td>
<td>Finish draft of market design presentation</td>
<td>Problem set 3</td>
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PROF’ CAROL OSLER: 3/1/2016

葫ótתת חוכမך ﻒﺴﻠﺘﺑ: 3/1/2016

יאשף ﻒת החוראה ﻋﺸل ﻢذدﺎل ﻖﻄﻨم

תאריך: 

תאריך: 

ראש ﻢذدﺎل: ﻒمﻮر’ ﻊﻮفأ ﺑر ﻢذل 

أتير/لآ أئور

יאשף ﻒّدزدآ ﻋﻠه ﻢذدﺎل ﻓﻠﻛلذة

فمﻮر’ ﻊﻮفأ: 

أتير/لآ أئور: 

تارير: 

AUTOGRAPHS: