Market Microstructure

- Price discovery: How information transmits and impounds into market prices.
  - Grossman (1976): Costly information and the importance of noise in the price system.
  - Grossman and Stiglitz (1980): The information content of price when information is costly.

- Transitory price movements, bid/ask spreads, and liquidity.

- Motives for trading:
  - Private information.
  - Difference in preferences or beliefs.
  - Difference in endowments: hedging needs.

Empirical Asset Pricing

Week 5: Microstructure and Asset Pricing

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Empirical Studies

High Frequency Trading

- Market fragmentation.
- The race to speed.
- Algo trading.
Measuring Market Liquidity

- Equity.
- Corporate Bonds.
- Treasury Bonds.
- Options.