

2-3:30 pm

C303

MGMT 239D
Information in Financial Markets
(Spring 2008)

In this course, we will consider papers in that have added to our knowledge of how information is processed in financial markets. The papers listed below will be covered in class and ancillary references will be made to related papers from time to time. Everyone should either procure the course reader which contains most of the papers relevant for the course, or arrange to have all of the paper photocopied.

The grading will be based on a presentation (20%) and a final exam (80%). The instructor will present the first ten papers listed below and students will present the last eight (or more depending on enrollment). The schedule for presentations will be drawn up during the first week of class. Students are welcome to audit the class but will have to present a paper if they do so. The presentation should cover the paper in depth and should not merely be qualitative but provide some details of the methodology used. I also plan to assign some homework exercises from time to time that I will expect you to attempt.

The schedule is hereunder. Papers in boldface denote key contributions, in the opinion of the instructor:

Part I: Strategic Models

Week 1
Introduction
Kyle (1985)

Week 2
Admati and Pfleiderer (1988)
Chowdhry and Nanda (1991)
Foster and Viswanathan (1996)

Part II: Competitive Models

Week 3
Grossman and Stiglitz (1980) (static model)
Hellwig (1980)
Hirshleifer, Subrahmanyam, and Titman (1994) (dynamic model in closed-form)

Part III: Empirical measurement and empirical importance of informed trading

Week 4
Easley, Hvidkjaer, and O'Hara (2000)

Madhavan and Smidt (1991)

Part IV: Behavioral Finance

Week 5

Daniel, Hirshleifer, and Subrahmanyam (1998)

Hong and Stein (1999)

Part V: Bid-Ask Spread Models

Week 6

Glosten and Milgrom (1985)

Easley and O'Hara (1987)

Part VI: Additional Important Contributions to Parts I-IV

Week 7

Foster and Viswanathan (1989) (strategic model)

Brown and Jennings (1989) (two-period competitive model)

Week 8

Wang (1994) (multiperiod competitive model)

Barberis, Shleifer, and Vishny (1998) (behavioral model)

Week 9 (Empirical papers)

Foster and Viswanathan (1993)

Hasbrouck (1991)

References

Albert S. Kyle

Continuous auctions and insider trading
Econometrica 53, 1315-1335

FD Foster and S Viswanathan

A theory of the interday variations in volume, variance, and trading costs in securities markets
The Review of Financial Studies, Volume 3, Issue 4: Winter 1990.
Pages 593-624

AR Admati and P Pfleiderer

A theory of intraday patterns: volume and price variability
The Review of Financial Studies, Volume 1, Issue 1: Spring 1988
Pages 3-40

B Chowdhry and V Nanda

Multimarket trading and market liquidity
The Review of Financial Studies
Volume 4, Issue 3: Fall 1991
pp. 483-511

A Subrahmanyam

A theory of trading in stock index futures
The Review of Financial Studies
Volume 4, Issue 1: Winter 1991
pp. 17-51

Madhavan, A, and S. Smidt, 1991, A Bayesian Model of Intraday Specialist Trading,
Journal of Financial Economics 30, 99-134.

Glosten, Lawrence R.; Milgrom, Paul R.

Bid, Ask and Transaction Prices in a Specialist Market with
Heterogeneously Informed Traders.
Journal of Financial Economics v14, n1 (Mar 1985):71-100.

Allen, Franklin; Gorton, Gary.

Stock Price Manipulation, Market Microstructure and Asymmetric
Information.
European Economic Review v36, n2,3 (Apr 1992):624-630.

Easley, David; O' Hara, Maureen.

Price, Trade Size, and Information in Securities Markets.
Journal of Financial Economics v19, n1 (Sep 1987):69-90.

Subrahmanyam, Avanidhar.

The ex ante effects of trade halting rules on informed trading strategies and market liquidity.

Review of Financial Economics v6, n1 (1997):1-14

Grossman, Sanford J.; Stiglitz, Joseph E.

On the Impossibility of Informationally Efficient Markets.

American Economic Review v70, n3 (Jun 1980):393-408.

Diamond, Douglas W.; Verrecchia, Robert E.

Information Aggregation in a Noisy Rational Expectations Economy.

Journal of Financial Economics v9, n3 (Sep 1981):221-235.

Hellwig, Martin F.

On the aggregation of information in competitive markets

Journal of Economic Theory 22 (1980), 477-498.

Hirshleifer, David; Subrahmanyam, Avanidhar; Titman, Sheridan.

Security analysis and trading patterns when some investors receive information before others.

Journal of Finance v49, n5 (Dec 1994):1665-1698.

Foster, F Douglas; Viswanathan, S.

Strategic trading when agents forecast the forecasts of others.

Journal of Finance v51, n4 (Sep 1996):1437-1478.

On technical analysis

DP Brown and RH Jennings

The Review of Financial Studies, Volume 2, Issue 4: Winter 1989.

Pages 527-551

Wang, Jiang.

A model of competitive stock trading volume.

Journal of Political Economy v102, n1 (Feb 1994):127-168.

Daniel, Kent; Hirshleifer, David; Subrahmanyam, Avanidhar.

Investor psychology and security market under- and overreactions.

Journal of Finance v53, n6 (Dec 1998):1839-1885.

Barberis, Nicholas; Shleifer, Andrei; Vishny, Robert.

A model of investor sentiment.

Journal of Financial Economics v49, n3 (Sep 1998):307-343.

Harrison Hong and Jeremy C. Stein

A Unified Theory of Underreaction, Momentum Trading and Overreaction in Asset Markets, *Journal of Finance* v54, n6 (Dec 1999):2143-2184.

Harrison Hong, Terence Lim, and Jeremy C. Stein
Bad News Travels Slowly: Size, Analyst Coverage, and the Profitability of Momentum Strategies, *Journal of Finance*

Stoll, Hans R.

Inferring the Components of the Bid-Ask Spread: Theory and Empirical Tests.

Journal of Finance v44, n1 (Mar 1989):115-134.

Roll, Richard.

A Simple Implicit Measure of the Effective Bid-Ask Spread in an Efficient Market.

Journal of Finance v39, n4 (Sep 1984):1127-1139.

Glosten, Lawrence R.; Harris, Lawrence E.

Estimating the Components of the Bid/Ask Spread.

Journal of Financial Economics v21, n1 (May 1988):123-142.

Hasbrouck, Joel.

Trades, Quotes, Inventories, and Information.

Journal of Financial Economics v22, n2 (Dec 1988):229-252.

Hasbrouck, Joel.

Measuring the Information Content of Stock Trades.

Journal of Finance v46, n1 (Mar 1991):179-207.

Foster, F Douglas; Viswanathan, S.

Variations in trading volume, return volatility, and trading costs:

Evidence on recent price formation models.

Journal of Finance v48, n1 (Mar 1993):187-211.

Huang, Roger D; Stoll, Hans R.

Dealer versus auction markets: A paired comparison of execution costs on NASDAQ and the NYSE.

Journal of Financial Economics v41, n3 (Jul 1996):313-357.