Advanced Market Microstructure

Instructor: Terry Hendershott, hender@haas.berkeley.edu

1 Course description

The purpose of the course is to acquaint students with more advanced topics in the field of market microstructure, both theoretically and empirically.

2 Reading

2.1 Background material

Market Liquidity: Theory, Evidence, and Policy by Thierry Foucault, Marco Pagano, and Ailsa Roell

Empirical Market Microstructure: The Institutions, Economics, and Econometrics of Securities Trading by Joel Hasbrouck

2.2 Reader

A list of relevant academic publications is provided for each of the corresponding lectures.

3 Topics

1. Testing information-based models (4 hrs)
   - Boulatov, A., Hendershott T., Livdan, D., Informed Trading and Portfolio Returns, Review of Economic Studies 80 (January 2013), 35-72..
   - Hendershott T., Livdan, D., Schürhoff, S., Are Institutions Informed about News? Journal of Financial Economics, forthcoming.
2. Testing non-information-based models (4 hrs)
   - Hendershott T., Menkveld, A., Price Pressures, Journal of Financial Economics 114 (December 2014), 405-423.
   - Hendershott T., Menkveld, A., Li, S., Seasholes, M., Asset Price Dynamics with Limited Attention, working paper.
   - Duffie, D., Asset Price Dynamics with Slow-Moving Capital, Journal of Finance (2010), 1238-1268.
   - Comerton-Forde, C., Hendershott T., Jones, C., Moulton, P., Seasholes, M.,Time Variation in Liquidity: The Role of Market Maker Inventories and Revenues, Journal of Finance 65 (February 2010), 295-331.
3. Over-the-counter markets (3 hrs)
   - Hendershott T., Madhavan, A., Click or Call? Auction versus Search in the Over-the-Counter Market, Journal of Finance 70 (February 2015), 419-447.
   - Barclay, M., Hendershott T., Kotz, K., Automation versus Intermediation: Evidence from Treasuries Going Off the Run, Journal of Finance 61 (October 2006), 2395-2414.
4. High-frequency trading and its impact (4 hrs)
   - Brogaard, J., Hendershott T., Riordan, R., High Frequency Trading and Price Discovery, Review of Financial Studies 27 (August 2014), 2267-2306.
   - Brogaard, J., Hendershott T., Riordan, R., High Frequency Trading and the 2008 Short-Sale Ban, working paper.

- Brogaard, J., Hendershott T., Riordan, R., High Frequency Trading and Market Integration, working paper.