Florence School of Banking and Finance

Liquidity, Price Discovery, and Market Design

Instructor: **Thierry Foucault** | HEC Paris

Sala Europa

Villa Schifanoia, Via Boccaccio 121 - Florence

3 - 5 June 2019

Programme

3 June

14.00 - 15.30	**Price Discovery, Illiquidity, and Informed Trading (I-Theory)** • Order Flow and private information • Price impacts and illiquidity • Measuring adverse selection costs
15.30 - 16.00	*Coffee break*
16.00 - 17.30	**Price Discovery, Illiquidity, and Informed Trading (I-Theory)** • The role of trade size • Theoretical foundation for price impact regressions
17.30	*Social activities outside the EUI (TBD)*

4 June

09.30 - 11.00	**Introduction to E.Views (used for exercises and applications in the rest of the course)**
11.00 - 11.30	*Coffee break*
11.30 - 13.00	**Price impact regressions and their interpretation** • Transient vs. permanent impacts of trades

- Relating price changes to order flow
- Illiquidity and volatility

13.00 - 14.00 *Lunch*

14.00 - 15.30 **Measuring informed trading and applications**

- The PIN measure
- Examples of applications

15.30 - 16.00 *Coffee break*

16.00 - 17.15 **Exercise**

17.15 *Social activities outside the EUI (TBD)*

5 June

09.30 - 11.00 **Dealers' holding costs and Price Reversals (Theory)**

- Definition of inventory holding costs
- Price dynamics with inventory holding costs

11.00 - 11.30 *Coffee break*

11.30 - 13.00 **Price impact regressions with inventory holding costs**

- How to account for inventory holding costs in price impact regressions
- How to measure the informational content of trades in the presence of inventory effects

13.00 - 14.00 *Lunch*

14.00 - 15.30 **Exercise**

15.30 - 16.00 *Coffee break*

16.00 - 17.15 **Policy issues in market design of electronic markets:**

- Analyzing effects of change in market structure in financial markets
- Examples: High frequency and algorithmic trading, market transparency, centralization vs. decentralization of trading