

Master 104 – Market Microstructure

Instructor

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Overview

The field of market microstructure combines theoretical modeling, institutional knowledge, and empirical analysis to understand how prices result from the interactions of traders in financial markets. The course aims to acquaint students with (i) the canonical models in microstructure and how they can be adapted to study the effects of recent changes in market structures and trading technologies (e.g., high frequency trading), and (ii) econometric models used to test the predictions of microstructure models.

Evaluation

Final exam: 70%. Assignment: 30%.

Tentative Syllabus

1. Trading Mechanics and Market Structure
2. Market Liquidity and Transaction costs
3. Information and Trading
4. Order Processing Costs, Inventories, and Trading
5. Trade Size and Market Depth
6. Limit Order Markets
7. Market Fragmentation
8. Market Transparency
9. Trading Automation: Algorithmic and High-Frequency Trading

Textbooks

- Foucault, Thierry, Marco Pagano, and Ailsa Röell, Market Liquidity: Theory, Evidence, and Policy, Oxford University Press, 2013.
- Hasbrouck, Joel, Empirical Market Microstructure, Oxford University Press, 2007.

Readings

- **To be completed**