

CONTENTS

<i>List of figures</i>	ix
<i>Preface</i>	xi
1. Information, Equilibrium, and Efficiency Concepts	1
1.1. Modeling Information	2
1.2. Rational Expectations Equilibrium and Bayesian Nash Equilibrium	14
1.2.1. <i>Rational Expectations Equilibrium</i>	14
1.2.2. <i>Bayesian Nash Equilibrium</i>	16
1.3. Allocative and Informational Efficiency	21
2. No-Trade Theorems, Competitive Asset Pricing, Bubbles	30
2.1. No-Trade Theorems	30
2.2. Competitive Asset Prices and Market Completeness	37
2.2.1. <i>Static Two-Period Models</i>	38
2.2.2. <i>Dynamic Models – Complete Equitization versus Dynamic Completeness</i>	44
2.3. Bubbles	47
2.3.1. <i>Growth Bubbles under Symmetric Information</i>	48
2.3.2. <i>Information Bubbles</i>	55
3. Classification of Market Microstructure Models	60
3.1. Simultaneous Demand Schedule Models	65
3.1.1. <i>Competitive REE</i>	65
3.1.2. <i>Strategic Share Auctions</i>	72
3.2. Sequential Move Models	79
3.2.1. <i>Screening Models à la Glosten</i>	79
3.2.2. <i>Sequential Trade Models à la Glosten and Milgrom</i>	87
3.2.3. <i>Kyle-Models and Signaling Models</i>	93
4. Dynamic Trading Models, Technical Analysis, and the Role of Trading Volume	98
4.1. Technical Analysis – Inferring Information from Past Prices	99
4.1.1. <i>Technical Analysis – Evaluating New Information</i>	100
4.1.2. <i>Technical Analysis about Fundamental Value</i>	103

4.2. Serial Correlation Induced by Learning and the Infinite Regress Problem	113
4.3. Competitive Multiperiod Models	117
4.4. Inferring Information from Trading Volume in a Competitive Market Order Model	130
4.5. Strategic Multiperiod Market Order Models with a Market Maker	136
5. Herding and Informational Cascades	147
5.1. Herding due to Payoff Externalities	147
5.2. Herding due to Information Externalities	148
5.2.1. <i>Exogenous Sequencing</i>	149
5.2.2. <i>Endogenous Sequencing, Real Options, and Strategic Delay</i>	153
5.3. Reputational Herding and Anti-herding in Reputational Principal–Agent Models	157
5.3.1. <i>Exogenous Sequencing</i>	158
5.3.2. <i>Endogenous Sequencing</i>	163
6. Herding in Finance, Stock Market Crashes, Frenzies, and Bank Runs	165
6.1. Stock Market Crashes	166
6.1.1. <i>Crashes in Competitive REE Models</i>	168
6.1.2. <i>Crashes in Sequential Trade Models</i>	177
6.1.3. <i>Crashes and Frenzies in Auctions and War of Attrition Games</i>	184
6.2. Keynes' Beauty Contest, Investigative Herding, and Limits of Arbitrage	190
6.2.1. <i>Unwinding due to Short Horizons</i>	192
6.2.2. <i>Unwinding due to Risk Aversion in Incomplete Markets Settings</i>	198
6.2.3. <i>Unwinding due to Principal–Agent Problems</i>	204
6.3. Firms' Short-Termism	211
6.4. Bank Runs and Financial Crisis	213
<i>References</i>	221
<i>Index</i>	233

LIST OF FIGURES

1.1	Inference problem from price changes	28
2.1	Illustration of common knowledge events	32
2.2	Illustration of Aumann's agreement theorem	33
3.1	Average market price schedules under uniform and discriminatory pricing	85
3.2	Tree diagram of the trading probabilities	89
6.1	Price crash in a multiple equilibrium setting	174
6.2	Frenzy in an auction	188