

Dissertation Defense

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Essays in Financial Economics: Securitizations Trading, Decentralized Interdealer Markets, and Strategic Information Acquisition with Overlaps

The first essay studies valuation and intermediation patterns on a decentralized dealer market with heterogeneous dealers. I develop a model of an over-the-counter market where dealers differ in their trade execution efficiency, to capture the core-peripheral nature of dealer networks documented in recent empirical studies. I investigate interdealer trading patterns and the relationship between dealers' trade execution efficiency and customer bid-ask spreads. In equilibrium, more efficient central dealers provide intermediation services to peripheral dealers. Customers can find better bargains when trading with peripheral dealers, even though peripheral dealers may charge wider bid-ask spreads on average. The model yields results that are consistent with anecdotal and empirical evidence from municipal bond markets, markets for asset-backed securities and collateralized mortgage-backed obligations.

The second essay is an empirical study of securitizations trading and dealer networks (a joint work with Burton Hollifield and Chester Spatt). Traditionally, various types of securitizations have traded in opaque markets. During May 2011 the Financial Industry Regulatory Authority (FINRA) began to collect transaction data from broker-dealers (without any public dissemination) as an initial step towards increasing transparency and enhancing its understanding of these markets. In this paper we study the structure of the intermediary network and how that influences the nature of bid-ask spreads. We use two alternative methodologies to measure dealer's relative positions in the interdealer network. Some dealers are relatively central in the network and trade with many other dealers, while many others are more peripheral. We propose a way to disentangle dealers' local and global importance and perform empirical analysis using the constructed measures. We also study the determinants of bid-ask spreads, such as the size of the underlying trade and the path by which trade execution and intermediation occur. One focus in our paper is the contrast between registered instruments that are freely tradable and Rule 144a instruments with much more limited disclosures that can only be purchased by sophisticated investors.

The third essay is on strategic information acquisition with overlaps and emerging trading outcomes. I develop a model of information acquisition and strategic trading by multiple traders with correlated signals about asset fundamentals. Traders have access to a common pool of valuable information and thus can obtain information with significant overlaps, having many bits in common. I develop a stochastic process that captures the structure of the pool of information and allows for various degrees of overlaps across traders, which generalizes the existing approaches in the literature. Finally, I study how the degree of overlaps across traders influences equilibrium information acquisition, trading strategies and overall market outcomes, such as price informativeness and market depth.