Focus of Course: This course will focus on financial markets – primarily in an area called market microstructure. The readings in this course will expose you to a broad base of literature, both theoretical and empirical, regarding the market microstructure of financial markets.

Course Materials:
Various Journal Articles – see reading list.

Other (reference) material:

Trading and Exchanges, Market Microstructure for Practitioners, by Larry Harris. Oxford University Press.

Course Pedagogy:
This seminar will examine financial markets with an emphasis on the market microstructure of financial markets. The journal readings are primarily empirical, but the references in the articles can direct you to the theoretical motivation of the studies (also, the Market Microstructure Theory book by O’Hara is an excellent reference book for theory). We will read many articles in this course in order to provide you with a broad-base of knowledge in the research which is (and had been) done regarding market microstructure, investments and finance.

Each student is expected to read each of the assigned readings each week before class. With the course being a seminar, students are to present the journal articles they are assigned to the class. Class time will be spent with the presentations and discussions of the material which is presented.

Each student is expected to complete a term (research) paper. This paper can take one of two forms: (1) an original paper, or (2) a replication of a well-known journal article with newer (different) data. It is preferred that a student will produce an original piece of research for this class – as once you are a faculty member you will be expected to produce original research, a replication can be done as a project (since this is not a original piece of work, the highest grade that will be given on a replication is a 92).

The presentation of the project will be made to the class on the last class day of the semester. The topic must be approved – which should be done by the first to second week in February. An initial presentation of the topic (a brief, informal presentation) will be made to the class on March 2.

Grading:
In class presentations and class participation (30%)
Research project (35%)
Final Exam (35%)
**Discussion/Presentation of Articles:**
The discussion/presentation of articles (articles will be assigned to each student) are to be informal, but each person in the class should be given a copy of an outline (summary) of the article by the person who is discussing/presenting the article. In the outline several things need to be explicitly mentioned:

- **Theoretical Basis of Research**
  - What is the theoretical motivation of the research?
  - What theories are tested?
- **Methodology of Research**
  - What types of tests are used?
  - Anything interesting in the sample (did they have matched samples? if so, how?)
- **Major Findings of Research**
  - What are the major findings of the study?
  - How did this add to the field of finance?

**Tentative Course Outline:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 26</td>
<td>Intraday Market Behavior</td>
<td>Introduction</td>
</tr>
<tr>
<td>Feb 2</td>
<td>Short Sales</td>
<td>Section I: Articles</td>
</tr>
<tr>
<td>Feb 9</td>
<td>Trading</td>
<td>Section II: Articles</td>
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<tr>
<td>Feb 16</td>
<td>Trading II and Options</td>
<td>Section III: Articles</td>
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<tr>
<td>Feb 23</td>
<td>Nasdaq Controversy and Market Changes</td>
<td>Section IV: Articles</td>
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<tr>
<td>Mar 2</td>
<td>Execution Costs</td>
<td>Section V: Articles – Project topics</td>
</tr>
<tr>
<td>Mar 9</td>
<td>Spring Break</td>
<td>Section VI: Articles</td>
</tr>
<tr>
<td>Apr 6</td>
<td>Competition</td>
<td>Section VII: Articles</td>
</tr>
<tr>
<td>Apr 13</td>
<td>Market Microstructure and Stealth Trading</td>
<td>Section VIII: Articles</td>
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<tr>
<td>Apr 20</td>
<td>Volatility and NYSE Hybrid</td>
<td>Section IX: Articles</td>
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<tr>
<td>Apr 27</td>
<td>Additional Microstructure Issues</td>
<td>Section X: Articles</td>
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<tr>
<td></td>
<td>Project Presentation</td>
<td>Section XI: Articles</td>
</tr>
<tr>
<td></td>
<td>Final</td>
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</tbody>
</table>

***I reserve the right to alter the class schedule as circumstances dictate. Changes to the syllabus will be announced in class. Students not attending are responsible for obtaining this information.***
**Reading List**

I. **Intraday Market Behavior**


II. **Short Sales**


III. **Trading**


IV. Trading II and Options


V. Nasdaq Controversy, Clustering, and Market Changes


**VI. Execution Costs**


**VII. Competition**


**VIII. Bonds**


IX. Market Microstructure – AFA Presidential Addresses and Stealth Trading


X. Volatility and NYSE Hybrid


XI. Some additional Market Microstructure Issues


Additional Topical Reading

Electronic Markets and Pre-After Hours Trading


Measuring the Spread, and Spread Components


Other Issues and Market microstructure


**Experimental Market Microstructure**


**Limit Orders:**


**Some Additional Tick Size Studies**
