Trading with informed investors

Andreas Krause

Outline

- Informed traders
- Market efficiency
- Market liquidity
- Summary

Traders in the market

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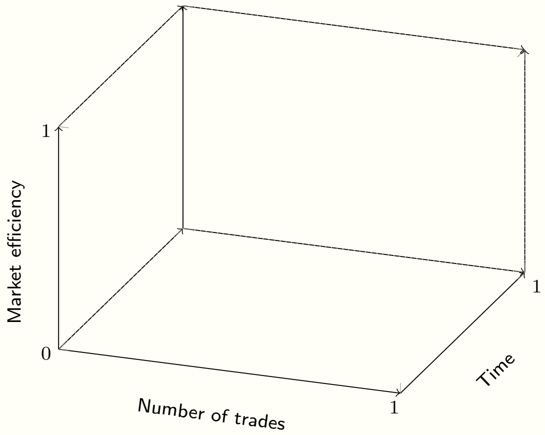

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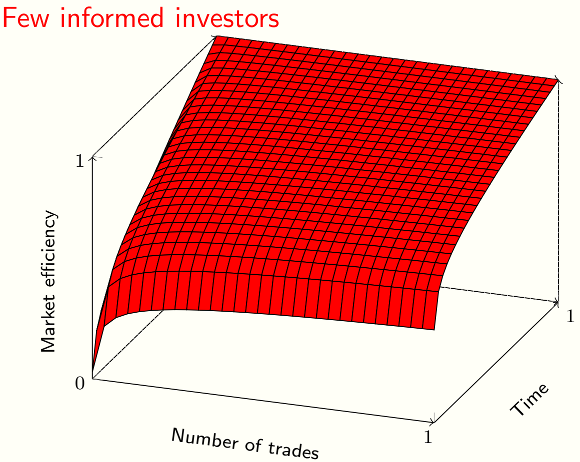

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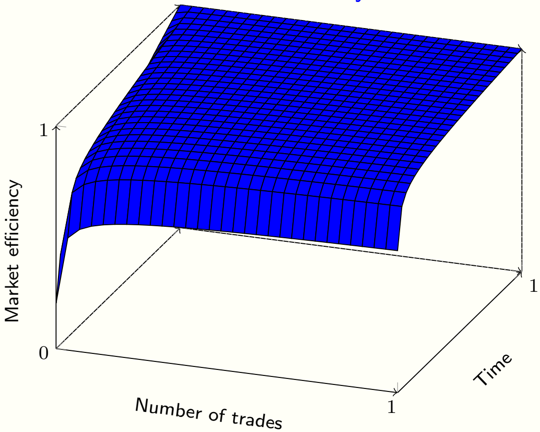

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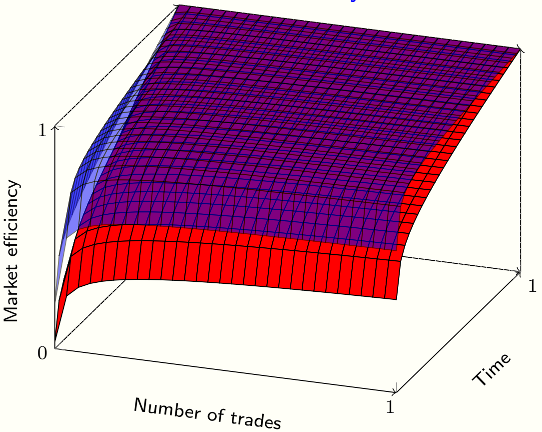

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- Informed traders compensate for this by submitting larger orders, offsetting the effect of more noise traders
- Markets with higher asymmetric information, a higher initial variance of the value, will see larger trades by informed investors
- This implies that prices will adjust more, giving rise to the same market efficiency

- Informed traders
- Market efficiency
- Market liquidity
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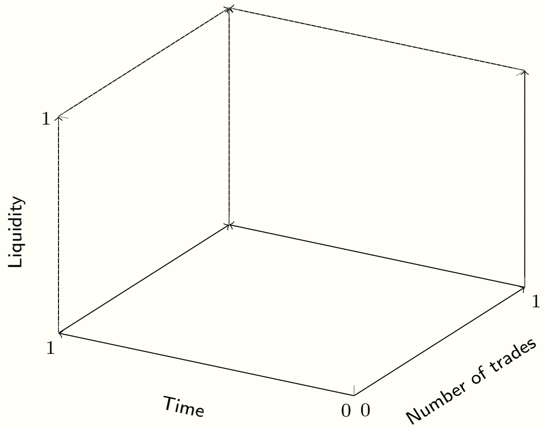
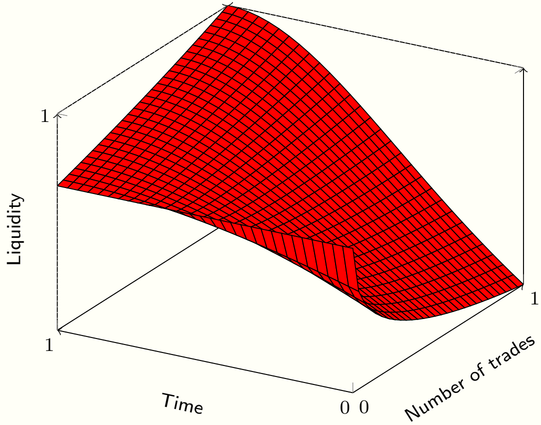


Market liquidity

Few informed investors



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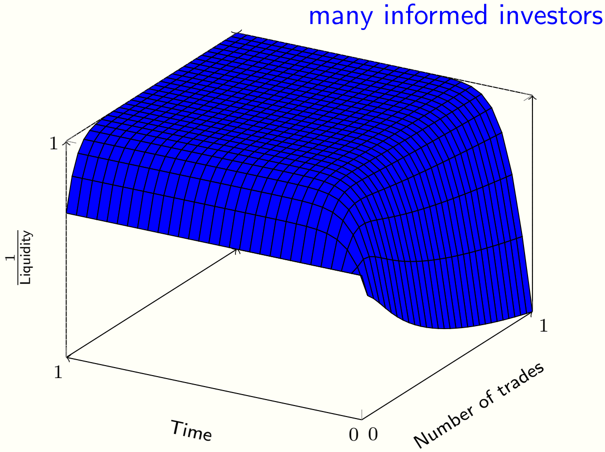
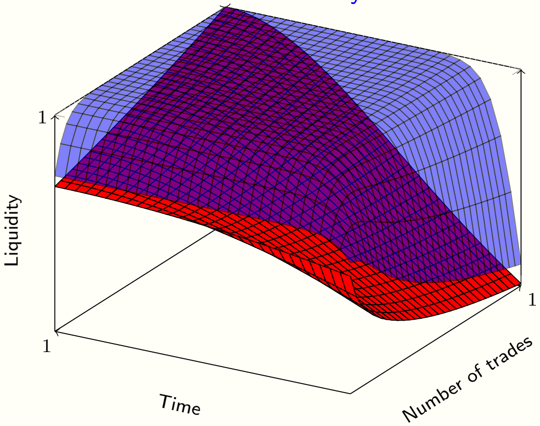


Market liquidity

Few informed investors and many informed investors



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