Summer School: Frictions in Firms and Markets

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Financial Markets with Information Frictions

Liyan Yang

Rotman School of Management, University of Toronto

Liyan.yang@rotman.utoronto.ca

Abstract:

This lecture summarizes some key contributions in the literature of asymmetric information in financial markets. It begins with a conceptual framework of how various players – such as investors, managers, analysts, and regulators – interact to determine the informational environment of financial markets. It then follows with three concrete applications: (1) information disclosure in financial markets; (2) real effects of commodity financialization through information transmission; and (3) back-running of high frequency traders. The first two applications employ static rational expectations equilibrium models, while the third application uses a dynamic strategic model. The tools and insights developed in this lecture may be applied to understanding many recent phenomena arising in the emerging data economy. Overall, the course suggests that information is an important factor for understanding the functioning of financial markets and the real economy.

Readings (We will focus on the readings marked *):

[1] Bond, P., A. Edmans, and I. Goldstein (2012), "The Real Effects of Financial Markets," *Annual Review of Financial Economics* 4, 339 – 360.

[2] Goldstein, I. and L. Yang (2015), "Information Diversity and Complementarities in Trading and Information Acquisition," *Journal of Finance* 70, 1723 – 1765.

[3]* Goldstein, I. and L. Yang (2017), "Information Disclosure in Financial Markets," *Annual Review of Financial Economics* 9, 101 – 125.

[4] Goldstein, I. and L. Yang (2019a), "Good Disclosure, Bad Disclosure," *Journal of Financial Economics* 131, 118 – 138.

[5]* Goldstein, I. and L. Yang (2019b), "Commodity Financialization and Information Transmission," Working Paper.

[6] Yang, L. (2019), "Disclosure, Competition, and Learning from Asset Prices," Working Paper.

[7]* Yang, L. and H. Zhu (2019), "Back-Running: Seeking and Hiding Fundamental Information in Order Flows," *Review of Financial Studies*, Forthcoming.