

EC371 Economic Analysis of Asset Prices

Exercise 10: Asset Market Microstructure

1. Distinguish between order-driven and quote-driven asset markets. Hence, discuss their relative strengths and weaknesses.
2. To what extent is there a trade-off between competition among the members of a market organization (dealers or brokers) and the protection of public investors from fraud? Hence, discuss the role of regulation in financial markets.
3. Discuss the informational efficiency of asset markets in the presence of insider trading.
4. Discuss the role of informational asymmetries in determining bid-ask spreads in stock markets.
