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Dynamics of Price Formation in Financial Markets

van Hasselt, P.W.

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This thesis develops a theoretical study of price formation and investor behavior in financial markets. The consensus on the price formation process has changed fundamentally over the past decades. It has evolved from the neo-classical Walrasian understanding of market clearing to a believe that the market microstructure and the distribution of information across investors profoundly impact financial markets equilibria. This study focuses on the dynamics of price formation under asymmetric information. In particular, it applies the noisy rational expectations approach (with information feedback from prices to investors), to a steady state overlapping generations economy. In five separate contributions, several issues are considered, such as the impact of market development on liquidity, the rationale and validity of technical trading rules, and time series properties of asset returns.

Pieter van Hasselt (1970) graduated in Theoretical Physics at the University of Utrecht in 1994 (cum laude). Between 1994 and 1998, he was employed as a Ph.D. student at the Finance Group of the University of Amsterdam and at the Tinbergen Institute. In July 1998, he started his own company and specialized in developing trade-assisting software. As of January 1999, he is the happy sole user of this software and trades professionally at the EUREX.

