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Title:

How Do Markets React to (Un)expected Fundamental Shocks? An Experimental Analysis (with Wael Bousselmi and Patrick Sentis)

Abstract:

We rely on experimental asset markets to study the impact of unexpected/expected fundamental value shocks on prices and turnover. We collected data for a total of 36 markets, 21 markets with constant fundamental value and 15 markets with stochastic fundamental value (8 with upward shocks and 7 with downward shocks). Price bubbles appear in almost all markets, with and without FV shocks. FV shocks affect negatively transaction prices, deflating the price bubble, and negatively trading volumes. These results suggest that FV shocks tend to reduce information asymmetry. Specifically, lower spread between median/mean prices and fundamental value (lower price deviation) and lower turnover have been observed. The depression effect on the volume of transactions after a shock is observed whatever the direction (upwards or downwards) and the type (expected or unexpected) of the shock. Transactions prices tend to underreact following a negative shock and no reaction following positive shock. Finally, shocks increase sharply the difference of opinions, but this effect does not affect the volume of transactions.