Seminar Series: Computational Finance

Date: Tuesday, April 19, 2016
Time: 3:00 pm – 3:50 pm
Location: UNIV 003

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A MARKET WITH LIQUIDITY RISK

Abstract: Modern finance theory has been based on the frictionless and the competitive market paradigms. A frictionless market is one without transaction costs and trade restrictions, and a competitive market assumes that traders act as price takers so that their trades do not have any impact on the price process. This idealized state is useful to create tractable models and clarify ideas. Liquidity risk is often defined as the additional risk in the market due to the timing and size of a trade. The main idea is that the underlying asset price process may depend on activities of traders in the market. This talk introduces recent development on liquidity risk.