

LSE
Department of Finance

Information Asset Prices
Summer 2023

Professor Kathy Yuan

Course Description

Lectures are on the REE models of asset prices. I plan to cover the first two topics. If we have time, I will go over the last topic.

Lectures

Lectures are on Monday, Tuesday, Thursday and Friday from 3pm to 6pm during the week of July 31.

Course Material

Lecture notes will be provided after the lectures.

TENTATIVE LECTURE OUTLINE

Topic 1

Grossman-Stiglize and Nonlinear REE

The lecture gives an overview of work horse REE models in asset pricing.

Read:

1. Lecture notes
 2. Grossman, Sanford J., and Joseph E. Stiglitz, 1980, On the impossibility of informationally efficient markets, *American Economic Review* 70, 393-408.
 3. Gennotte, Gerard, and Hayes Leland, 1990, Market liquidity, hedging and crashes, *American Economic Review* 80, 999-1021.
 4. Yuan, Kathy, 2005, Asymmetric price movements and borrowing constraints: A rational expectations equilibrium model of crises, contagion, and confusion, *The Journal of Finance* 60 (1), 379-411.
 5. Chabakauri, Georgy Kathy Yuan, Konstantinos E Zachariadis, 2022, Multi-asset Noisy Rational Expectations Equilibrium with Contingent Claims, *The Review of Economic Studies*, 89(5), 2445-2490.
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Topic 2

Coordination, Feedback, Asset prices

The lecture gives an overview of price as a coordination device in REE models.

Read:

1. Lecture notes
 2. Morris, S. and Shin, H. S., 1998, Unique Equilibrium in a Model of Self-fulfilling Currency Attacks, *American Economic Review*, 88, 587-597.
 3. Goldstein, Itay, Emre Ozdenoren, and Kathy Yuan, 2011, Learning and Complementarities in Speculative Attacks, *Review of Economic Studies*, 78(1), 263-292.
 4. Ozdenoren, Emre, and Kathy Yuan, 2008, Feedback Effects and Asset Prices, *The Journal of Finance*, 63(4), 1939-1975.
 5. Goldstein, Itay, Emre Ozdenoren and Kathy Yuan, Trading Frenzies and Their Impact on Real Investment, 2013, *Journal of Financial Economics*, 109(2), 566-582.
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Topic 3

Information Acquisition, Endogenous Liquidity

The lecture gives an overview of the workhorse models of market micro market structure

Read:

1. Lecture notes
 2. Kyle, Albert, 1989, Informed speculation with imperfect competition. *Review of Economic Studies* 56, 317-355.
 3. Yuan, Kathy, 2005, The Liquidity Service of Benchmark Securities, *The Journal of the European Economic Association* 3 (5): 1156 - 1180.
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