An Economic Analysis of Dual Trading

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Abstract

Dual trading is said to occur when an entity sometimes trades as a broker for customers, and at other times trades for its own account. Dual trading is quite pervasive throughout the United States securities and futures markets as well as in financial and commodity markets throughout the world. The pervasiveness of dual trading is due to the fact that many of the skills and facilities required to be a good broker are also necessary to be a good trader. Dual trading increases the supply of both brokers and floor traders because a dual trader can earn income from two activities to cover the costs of training, an Exchange seat, and time spent on the floor. He has less idle time and facilities when he can switch from the activity in low demand to the activity in high demand.

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