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Information

Quantifying reflexivity in financial markets: Toward a prediction of flash crashes

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Phys. Rev. E **85**, 056108 – **Published 9 May, 2012**

DOI: <https://doi.org/10.1103/PhysRevE.85.056108>

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Abstract

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[Storage preferences](#) Hawkes model, which combines in a natural and parsimonious way exogenous influences with self-excited dynamics, to the E-mini S&P 500 futures contracts traded in the Chicago Mercantile Exchange from 1998 to 2010. We find that the level of endogeneity has decreased significantly from 1998 to 2010, with only 70% in 1998 to less than 30% since 2007 of feedback processes, as opposed to exogenous news. For this, we calibrate the self-excited Hawkes model, which combines in a natural and parsimonious way exogenous influences with self-excited dynamics, to the E-mini S&P 500 futures contracts traded in the Chicago Mercantile Exchange from 1998 to 2010. We find that the level of endogeneity has decreased significantly from 1998 to 2010, with only 70% in 1998 to less than 30% since 2007 of feedback processes, as opposed to exogenous news. For this, we calibrate the self-excited Hawkes model, which combines in a natural and parsimonious way exogenous influences with self-excited dynamics, to the E-mini S&P 500 futures contracts traded in the Chicago Mercantile Exchange from 1998 to 2010. We find that the level of endogeneity has decreased significantly from 1998 to 2010, with only 70% in 1998 to less than 30% since 2007 of feedback processes, as opposed to exogenous news. Analogous to nuclear plant safety measures concerned with avoiding "criticality," our measure provides a direct quantification of the level of endogeneity as the limit of di...

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ISSN 2470-0053 (online), 2470-0045 (print).

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