

Relationship Trading in Over-the-Counter Markets

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ABSTRACT

We examine the network of trading relationships between insurers and dealers in the over-the-counter (OTC) corporate bond market. Regulatory data show that one-third of insurers use a single dealer, whereas other insurers have large dealer networks. Execution prices are nonmonotone in network size, initially declining with more dealers but increasing once networks exceed 20 dealers. A model of decentralized trade in which insurers trade off the benefits of repeat business and faster execution quantitatively fits the distribution of insurers' network size and explains the price-network size relationship. Counterfactual analysis shows that regulations to unbundle trade and nontrade services can decrease welfare.

Supporting Information

Filename	Description
jofi12864-sup-0001-InternetAppendix.pdf 346.6 KB	Appendix S1: Internet Appendix.
jofi12864-sup-0002-replication-code.zip 149.5 KB	Replication code.

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