

# 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
<a href="#">jofi12864-sup-0001-InternetAppendix.pdf</a> 346.6 KB	<b>Appendix S1:</b> Internet Appendix.
<a href="#">jofi12864-sup-0002-replication-code.zip</a> 149.5 KB	<b>Replication code.</b>

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