



Exchange-Traded Funds 101 for Economists

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Abstract

Exchange-traded funds (ETFs) represent one of the most important financial innovations in decades. An ETF is an investment vehicle, with a specific architecture that typically seeks to track the performance of a specific index. The first US-listed ETF, the SPDR, was launched by State Street in January 1993 and seeks to track the S&P 500 index. It is still today the largest ETF by far, with assets of \$178 billion. Following the introduction of the SPDR, new ETFs were launched tracking broad domestic and international indices, and more specialized sector, region, or country indexes. In recent years, ETFs have grown substantially in assets, diversity, and market significance, including substantial increases in assets in bond ETFs and so-called "smart beta" funds that track certain investment strategies often used by actively traded mutual funds and hedge funds. In this paper, we begin by describing the structure and organization of exchange-traded funds, contrasting them with mutual

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Additional Materials

[Online Appendix \(411.27 KB\)](#)

[Author Disclosure Statement\(s\) \(25.62 KB\)](#)

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G23 Pension Funds; Non-bank Financial Institutions; Financial Instruments; Institutional Investors

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