

EconStor () / Max-Planck-Institut für Ökonomik, Jena (/handle/10419/34)

/ Jena Economic Research Papers (2007-2014), Max-Planck-Institut für Ökonomik und Universität Jena (/handle/10419/37)

Please use this identifier to cite or link to this item: <https://hdl.handle.net/10419/70137>



Title:

Margin trading bans in experimental asset markets



Authors:

Füllbrunn, Sascha
Neugebauer, Tibor

Year of Publication:

2012

Series/Report no.:

Jena Economic Research Papers No. 2012,058

Publisher:

Friedrich Schiller University Jena and Max Planck Institute of Economics, Jena

Abstract:

In financial markets, professional traders leverage their trades because it allows to trade larger positions with less margin. Violating margin requirements, however, triggers a margin call and open positions are automatically covered until requirements are met again. What impact does margin trading have on the price process and on liquidity in financial asset markets? Since empirical evidence is mixed, we consider this question using experimental asset markets. Starting from an empirically relevant situation where margin purchasing and short selling is permitted, we ban margin purchases and/or short sales using a 2x2 factorial design to allow for a comparative static analysis. Our results indicate that a ban on margin purchases fosters efficient pricing by narrowing price deviations from fundamental value accompanied with lower volatility and a smaller bid-ask-spread. A ban on short sales, however, tends to distort efficient pricing by widening price deviations accompanied with higher volatility and a large spread.

Subjects:

Leverage
asset Market
price bubble
experimental finance

JEL:

C92

D70

G12

Document Type:

Working Paper

Appears in Collections:

Jena Economic Research Papers (2007-2014), Max-Planck-Institut für Ökonomik und Universität Jena

Files in This Item:

File	Size
728993716.pdf (https://www.econstor.eu/bitstream/10419/70137/1/728993716.pdf)	446.97 kB

[Download Statistics \(/esstatistics/10419/70137?year=2024&month=3\)](#)[BibTeX-Export \(/bibtexexport/10419/70137/Fullbrunn2012Margin.bib\)](#)

Items in EconStor are protected by copyright, with all rights reserved, unless otherwise indicated.