

Department of Decision Sciences

Occasional Seminar for Sabbatical Leave

Dynamically Complete Experimental Asset Markets

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Abstract

We compare prices and portfolio choices in complete and incomplete experimental financial markets. The incomplete market treatment differs from the complete market one in that we shut down one market, and that we announce, halfway through trading, which of three states will not occur. The information structure in the incomplete markets is such that these markets satisfy the necessary condition to be dynamically complete. If they are indeed dynamically complete - a property that depends on the preferences of experiment participants, the individual holdings and asset prices in the incomplete market treatment must be equivalent to those in the complete market treatment. This is our finding. The distribution of asset holdings is undistinguishable across treatments, and state-price probability rankings coincide and are equilibrium rankings.

Jointly with Peter Bossaerts and William Zame