

Department of Decision Sciences

De Finetti Risk Seminar

A simple model for commodity markets

Ivar Ekeland

University of British Columbia

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Abstract

We describe a simple model, perhaps the simplest possible, of a commodity market where (physical) spot markets coexist with a (financial) futures market. We find equilibrium prices, and describe the impact of the financial market on the physical ones. We for instance show that speculation in the financial market increases the volatility of prices in the physical markets. This is joint work with Delphine Lautier and Bertrand Villeneuve.