Bocconi

Università Commerciale Luigi Bocconi

Department of Decision Sciences

De Finetti Risk Seminar

Dynamic Trading Volume

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6:00pm Room 3-E4-SR03 Via Rontgen 1 Milano

Abstract

We derive the process followed by trading volume, in a market with finite depth and constant investment opportunities, where a representative investor, with a long horizon and constant relative risk aversion, trades a safe and a risky asset. Trading volume approximately follows a Gaussian, mean-reverting diffusion, and increases with depth, volatility, and risk aversion. The model generates an endogenous ban on leverage and short-selling.

Joint work with Marko Weber

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