

## PD0 Results / Trading to Hedge

### Price Discovery in PD0

- ❑ At the end, GTT was going to be worth some value in the set  $\{20, 22, 24, 26, 28\}$ , each value equally likely.
- ❑ Over time, we learned values that were ruled out.
- ❑ At the end, we might know that the value would be either 22 or 28.
- ❑ Different people had different ruled-out values.

## The price discovery process in theory

- ❑ Suppose the true value is 28.
  - Group A knows the value is 28 or 20.
  - Group D knows the value is 28 or 26.
- ❑ Group D pushes the price up to 26.
- ❑ Once group A sees the price heading up to 26, they are confident that the final value is 28: they trade to 28.

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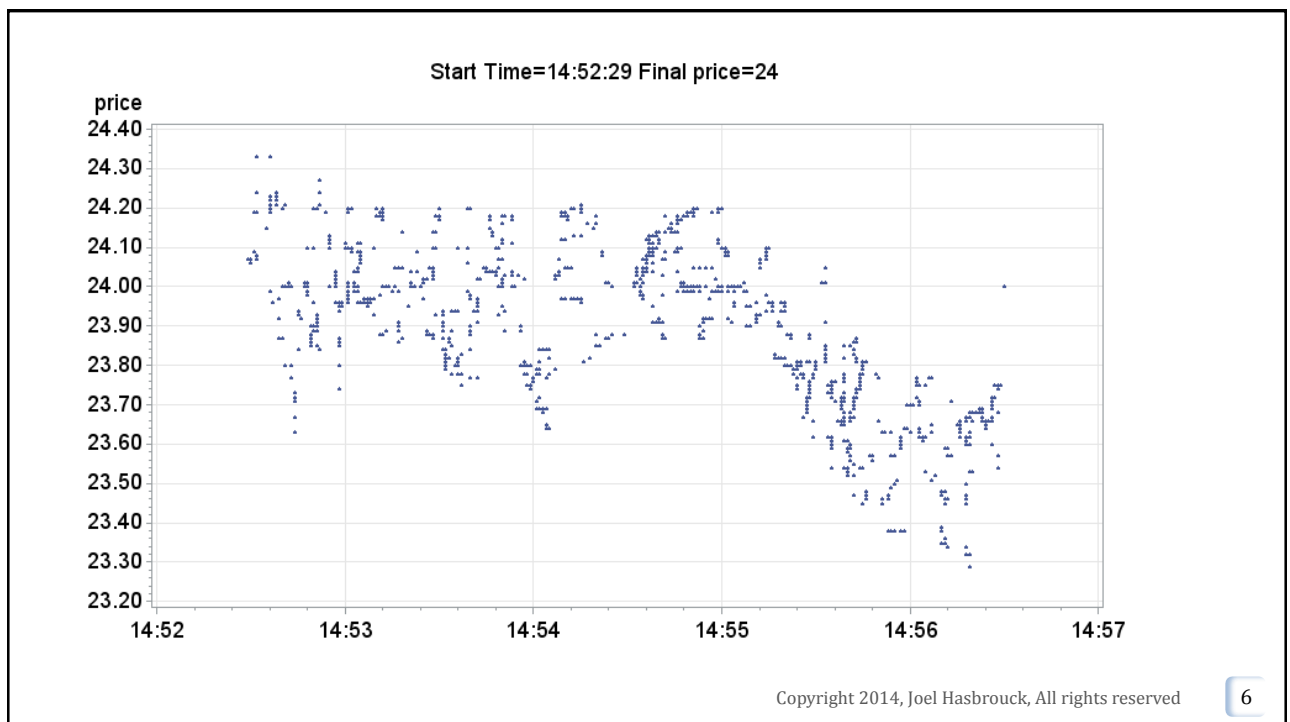
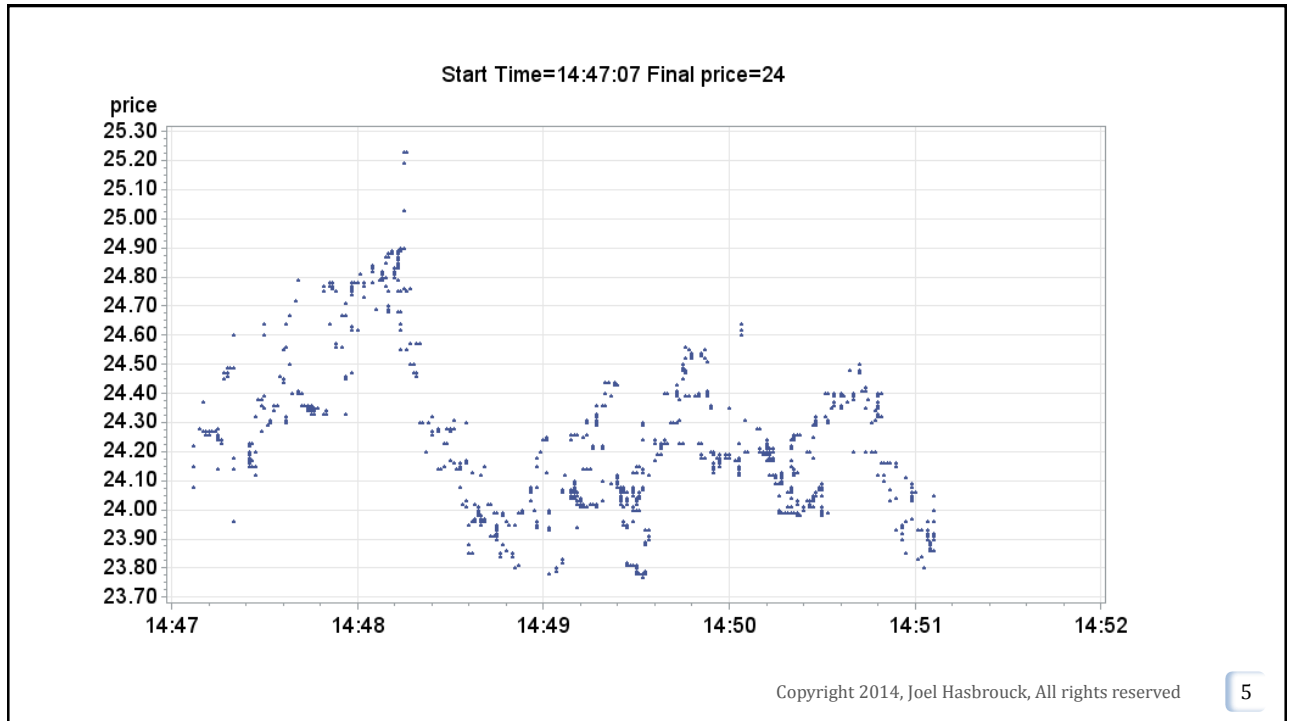
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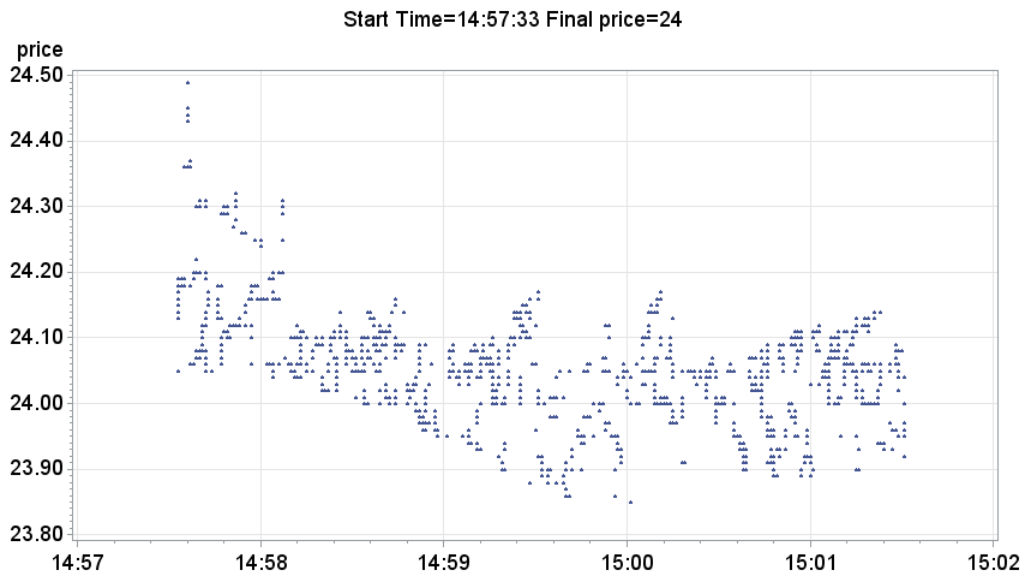
## The price discovery process in practice

- ❑ Trading is very congested. Market systems are slow to respond.
- ❑ Adjustment paths are chaotic, with a lot of undershooting and overshooting.
- ❑ Market orders can execute at very bad prices.

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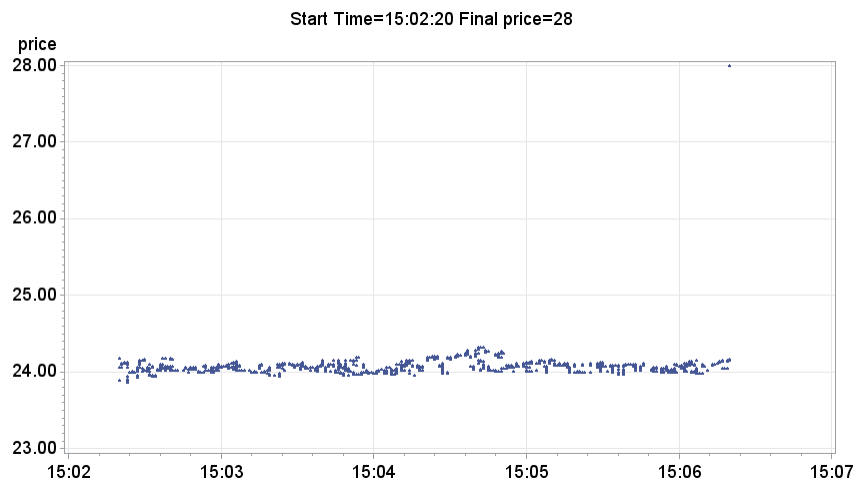
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7



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8

