General Discussion*

Asani Sarkar mentioned that the philosophy behind the paper is that order-driven and quote-driven (or dealership) markets are competitive with one another, while in Europe, for example, they act co-operatively. He indicated that there potentially exist positive externalities associated with the co-existence of these markets. He asked whether it would be possible to incorporate this into the paper's methodological approach.

Nicolas Audet replied that it was something they had considered and that it could be implemented. The current study does indeed assume that these markets are competitive, but their methodology could be altered so that the market in which individual agents trade could be selected endogenously.

Des Mc Manus wondered how robust their results were to assumptions such as the utility-function specification (exponential) and the nature of the inventory shocks (standard normal).

Audet indicated that while the reported results certainly depend on the assumptions, they had tried numerous configurations for the model and had attained very similar results. The model is, therefore, quite robust in this respect. In an analytical setting, one's results can vary quite dramatically and the problem can become insoluble with a subtle shift in the initial assumptions. Their model, however, can be changed by modifying a few lines of code and only the speed of model convergence is affected.

Derek Polcyn mentioned that there is resistance to alternative trading systems in the New York Stock Exchange (NYSE), since it is claimed that

* Prepared by David Bolder.

they reduce depth. He asked whether a critical mass of participants might alter the results.

Toni Gravelle responded that the NYSE is an order-driven market and thus the dealers claim that fragmentation of the market will reduce overall customer welfare; that is, it is preferable to keep all the liquidity in one spot. Moreover, these results are borne out in the paper's analysis.

Richard Lyons highlighted the fact that, using the results of their study, one might conclude that the reduction of dealers in a dealership market would imply a subsequent decrease in investor welfare. The paper nevertheless ignores the fact that a decrease in the number of dealers could actually engender a change in the aggregate risk aversion of the remaining dealers and consequently lead to higher investor welfare.

Gravelle mentioned that they do discuss this point, albeit briefly, in the paper, with ambiguous results, but he indicated that the study was primarily focused on a comparative statics-style analysis. He nevertheless agreed that a simultaneous decrease in the number of dealers could be accompanied with decreased risk aversion and, hence, increased customer welfare.

Walter Engert concluded the discussion by pointing out that this issue would be addressed in a later paper by Alexandra Lai and Chris D'Souza.