**UNIVERSITY OF WAIKATO**

**Hamilton**

**New Zealand**

**Trading Institutions in Experimental Asset Markets: Theory and Evidence**

Bulent Guler, Volodymyr Lugovskyy, Daniela Puzzello and Steven Tucker

**Working Paper in Economics 15/21**

December 2021

|  |  |
| --- | --- |
| **Bulent Guler**  Department of Economics  Indiana University  100 S. Woodlawn  Bloomington, IN 47405-7104  UNITED STATES | **Volodymyr Lugovskyy**  Department of Economics  Indiana University  Wylie Hall Rm 301  100 S. Woodlawn  Bloomington, IN 47405-7104  UNITED STATES  Email: vlugovsk@indiana.edu |
| **Daniela Puzzello**  Department of Economics  Indiana University  Wylie Hall Rm 315  100 S. Woodlawn  Bloomington, IN 47405-7104  UNITED STATES  Email: dpuzzell@indiana.edu | **Steven Tucker**  School of Accounting, Finance  and Economics  University of Waikato  Private Bag 3105  Hamilton  NEW ZEALAND, 3240  Email: steven.tucker.nz@gmail.com |
|  |  |

# Abstract

We report the results of an experiment designed to study the role of trading institutions in the formation of bubbles and crashes in laboratory asset markets. We employ three trading institutions: Call Market, Double Auction and Tâtonnement. The results show that bubbles are significantly smaller in uniform-price institutions than in Double Auction. We reproduce this and other critical patterns of the data by calibrating a heterogeneous agent model with fundamental and myopic-noise traders. The model produces larger bubbles under Double Auction because multiple trades occur within a period, amplifying the impact of myopic traders with positive bias on transaction prices.

**JEL Classification**

C90, C91, D03, G02, G12

# Keywords

experimental asset markets

bubbles

traders’ heterogeneity

trading institutions