A DYNAMIC ANALYSIS OF MOVING AVERAGE RULES IN A DOUBLE AUCTION MARKET

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Abstract. This paper will build on earlier work of Chiarella, He and Hommes (2006) (CHH) who investigate the stabilising and destabilising impact on financial markets of the commonly used moving average rules. The model of CHH relied on a market maker mechanism to clear the market. Here we shall consider a continuous double auction as the market clearing mechanism. The market consists of fundamentalist, chartists and noise traders with the chartists basing their order decisions on moving average signals. Agents switch between fundamentalist and chartist strategies by using the Brock-Hommes strategy switching mechanism. Simulations of the resulting model show that the model is able to reproduce quite well the stylised facts of financial markets.

References


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