

DISCUSSION OF
**Corsetti, Lafarguette, Mehl – ‘Fast Trading and the Virtue
of Entropy: Evidence from the Foreign Exchange Market’**

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Summary – Fast Trading & Entropy

- **Research question:**
 - Is **fast trading** (FT) **good or bad** for markets?
 - Look at **high-frequency** dispersion of **quoted prices** (and **news** impact) on **FX** markets
 - Extract **measure** of **FT share**
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 1. Regress **entropy over 30m** horizon on a **measure of FT**
 2. **Natural experiment** on tighter regulation on FT
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- **Empirical exercises:**
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- **Results:**
 - Fast trading **increases entropy**, rather than reacting to it
 - **Entropy increases market efficiency**... prices closer to RW

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- **Markets aggregate information** transferred via n trades

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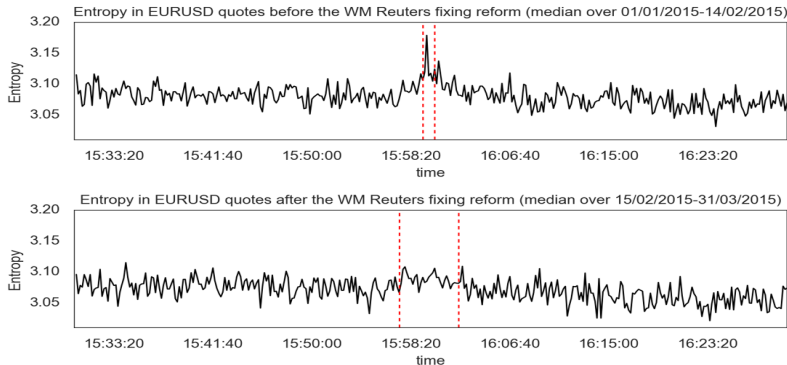
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- **Higher disagreement** \implies higher price dispersion/**higher entropy** \implies ...
more arbitrage **opportunities** \implies **more FT**

Natural experiment



- Some difference in the entropy before/after change of regulation
- Is it due to **outlawing** of some **market manipulation** practices?
- Is just temporary?
- Does **not exclude two-way causation!**

News impact

	Variance ratio test (pvalue) No controls
Normalized fundamental surprise	-0.090*** (0.01)
Share of fast traders (log)	-0.128** (0.01)
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Possible Interpretation:

High uncertainty + informative news \implies large information transfer \implies fast adjustment

Information transfer and disagreement

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- **Observation:**
 - Even if mean/median (survey) expectation on target
 - Ex-ante beliefs may be very disperse
 - Higher trading volume
- Standard deviation of market surveys

Wrap-up

- Hard to make causal statements
- Entropy depends on ex-ante uncertainty and disagreement
- FT may depend on price dispersion

Interesting and stimulating paper!