Zero-Intelligence Trader Homework

Name_________________________, Section_____

Model 1

You now have 10 runs from each student in your group. Complete the following table using the data each of you generated:

Model 1: Group Results

Student	Avg Price	Avg Qty	Avg Vol	Avg of Prices	"Avg" Std Dev	"Avg" Eff.
1						
2						
3						
4						
5						

Did the ZI Trader model under or over predict the predicted equilibrium price and quantity?

On average, how much of the market efficiency were the zero-intelligence traders able to achieve? How would you interpret that result, i.e., do traders have to be rational for the market to be efficient?

How is it possible for trades to occur at prices above the demand curve and/or below the supply curve?

For markets to be efficient, must there be a matching phenomenon, i.e., the "right" buyers are trading with the "right" sellers?

Model 2

You now have 10 runs from each student in your group. Complete the following table using the data each of you generated:

Model 1: Group Results

Student	Avg Price	Avg Qty	Avg Vol	Avg of Prices	"Avg" Std Dev	"Avg" Eff.
1						
2						
3						
4						
5						

Did the ZI Trader model over or under predict the predicted equilibrium price and quantity?

Comparing Model 2 with Model 1, did the ZI-Trader model do better or worse job of achieving market efficiency?

What changed between Model 1 and Model 2?

How might that be explaining the result you found?

Can you conclude that market efficiency is due to the structure of the market (the institution) or to the rationality of the participants? Why?