More on Market Making

Reading Questions 12

Wednesday, Oct. 17th 2012

1. What are the advantages and disadvantages of the Bayesian Market Maker proposed in the paper compared to a traditional LMSR market maker? In what situations would we prefer a BMM and in what situations would we prefer a LMSR market maker?

2. What are some difficulties in testing market makers on humans? How did the authors in the paper test their results?

3. For the authors, what are the desired properties of a market maker? How do these differ from the previous goals and market makers in the past? Are there any more desired properties that you would add, and does the proposed BMM have these desired properties?

4. How does the BMM adapt to market shocks? Why is it important for a market maker to be able to do this?

1 Generic Response

Respond to the paper following the guidelines on the front page of the course website (under 'Submit Comments and Presenting Papers').