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Author: Mike Farjam Oliver Kirchkamp

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Bubbles in hybrid markets

How expectations about algorithmic trading affect human trading*

Mike Farjam[†] Oliver Kirchkamp[‡]

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Bubbles are omnipresent in lab experiments with asset markets. Most of these experiments are conducted in environments with only human traders. Since today's markets are substantially determined by algorithmic trading, we use a laboratory experiment to measure how human trading depends on the expected presence of algorithmic traders. We find that bubbles are clearly smaller when human traders expect algorithmic traders to be present.

JEL: C92, G02

Keywords: Bubbles, Expectations, Experiment, Algorithmic Traders.

1. Introduction

Experimental research on assets markets began in the mid 20th century using a stable design which has hardly changed since (see Section 2 below). However, if we look at real world asset markets in the 21st century, we see great differences compared to asset markets in the 20th century. In the last century humans interacted with each other face to face. Today computers serve as an intermediary. The use of computers on asset markets comes in many forms. It includes simple support of human traders in scheduling sales of assets without influencing

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[†]Linnaeus University, Department of Social Studies, Universitetsplatsen 1, 35195 Växjö, Sweden, Mike.Farjam@lnu.se

[‡]University Jena, School of Economics, Carl-Zeiss-Str. 3, 07737 Jena, oliver@kirchkamp.de, ☎ +49 3641 943240, 📠 +49 3641 943242.

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