

(very preliminary and incomplete)

A Network Map of Information Percolation¹

Björn Hagströmer and Albert J. Menkveld

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¹Björn Hagströmer, Stockholm Business School, Stockholm University, S-106 91 Stockholm, Sweden, tel +46 8 163030, bjh@sbs.su.se. Albert J. Menkveld, VU University Amsterdam, FEWEB, De Boelelaan 1105, 1081 HV, Amsterdam, Netherlands, tel +31 20 598 6130, albertjmenkveld@gmail.com and Tinbergen Institute. We thank Serge Darolles, Joel Hasbrouck, and Vincent van Kervel as well as seminar/conference participants at U of Toulouse and U of Stavanger for helpful comments. Hagströmer gratefully acknowledges the Jan Wallander Foundation and Tom Hedelius Foundation for a travel grant funding his three-months visit at VU University Amsterdam. Menkveld gratefully acknowledges NWO for a VIDI grant.

Abstract

We measure information percolation in securities markets for a one-security-many-markets setting. Applications range from over-the-counter dealer markets to centralized trading in securities and their derivatives (broadly defined). The outcome is a network map with markets as vertices and information flows as directional edges. The approach first removes pricing errors due to, for example, liquidity trades. It then measures the information flow from A to B by the strength of B's immediate response to A. To illustrate the approach we analyze information percolation in normal-market conditions and flash crashes.