

18 Monday, week 3

18.1 Evans and Lyons JPE

1. In Figure 1, what's "orderflow?" How does this get around the classic response to the "buying pressure" fallacy that for every buyer there must be a seller?
2. Skip section 2, the model
3. What is the left hand variable in Table 1? What is the right hand variable Δx ? Is it the number of orders or the dollar volume of orders? Is it first differenced?
4. Why are interest rates on the right hand side in Table 1? Do the coefficients on interest rates make sense? Should it be the level or change in interest rate on the right hand side?
5. Is the economic size of the Δx coefficient in Table 1 sensible?
6. Do Table 1 and Figure 1 paint the same, or a different picture? (Levels vs. first differences)

18.2 Brandt and Kavajecz

1. Think and be prepared to discuss the various possibilities underlying a correlation of price change and orderflow.
2. How do B&K measure "orderflow?" You see a trade; how do you know if it's a "buy" or a "sell?" Is it number of trades or dollar volume?
3. See Figure 2 p. 2629 for timing of variables
4. What do the numbers mean in Table II? For example, interpret the first column.
5. How is the factor decomposition for orderflow, spreads, and depth the same/different from that of yields?
6. Table IV: Central table. What does the number -0.72 in the top left corner of table IV mean? (This is a question about units – if x moves by what, what happens to y)
7. Overall, how much of the daily change in yields is accounted for (notice I'm not saying "caused by"!) orderflow?
8. There is an intriguing pattern in the coefficients of Table IV – which orderflows are most important for explaining each kind of yield change?
9. Which bonds have the largest R^2 on orderflow? Does this make sense?

10. Is the orderflow effect stronger or weaker on days with big macro announcements? Why do we care?
11. How well would you do forecasting yield changes with one "order flow in all maturities" variable, rather than separate order flows?
12. How do the results in Table VI bear on the issue of "inventory premium" vs. "price discovery"?
13. How do the results in Table VII and VIII bear on the issue of "inventory premium" vs. "price discovery"?