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High Frequency Trading and Market Efficiency

Steven D. Dolvin sdolvin@butler.edu

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Dolvin, Steven D., "High Frequency Trading and Market Efficiency" (2014). All Chapters. 97. https://digitalcommons.butler.edu/jmdallchapters/97

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JMDinvestments

Tuesday, March 11, 2014

High Frequency Trading and Market Efficiency

Arbitrage is, essentially, taking advantage of mispricing across (or within) markets to earn a risk-free profit. In an efficient market, such opportunities would be rare. A recent Fed report (see article here, Bloomberg) finds that high frequency traders have effectively reduced the number of arbitrage opportunities, thereby improving market efficiency.

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