Does the choice of the market institution influence asset-pricing? ? An experimental investigation of asset pricing in call-auction and double-auction markets

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Abstract

The main purpose of this paper is to propose an experimental design including economic production for the laboratory study of financial decision-making in asset-markets. The experimental design involves two subject-types, managers and investors. Managers make decisions for the company in a growing economy. Investors trade the shares of the company in the market. Shareholders are entitled to receiving the dividends of the company. The risks of holding shares in a company are bad managerial decisions and the uncertainty of the demand for the company?s products. In this setting, we investigate asset pricing in and the risks of two market institutions; the call auction and the double auction. Market risks involve debt spirals, illiquidity, and, consequently, volatility in the share price and mispricing. To both market-settings we apply standard asset-pricing models to find that the short-term future price prediction of relative valuation is not worse compared to discounted cash-flow valuation model. We also find that the call-auction market is a much more risky institution than the double-auction market, because price-jumps lead to forced asset liquidations.