	Со	ntents		
30- ···		Asset Pricestand Betunner later Asset Pricestand of The Dynamic Page 16.5.		
		Bibliography and Selected Readings III traf of noitoube		
	Prefe	ace		page xiii
	How	to Read this Book		xvi
Part I	Micro	structure and Empirical Facts		1
	Intro	duction to Part I		3
1	Elect	tronic Markets and the Limit Order Book		4
	1.1	Electronic markets and how they function		4
	1.2	Classifying Market Participants		6
	1.3	Trading in Electronic Markets		9
		1.3.1 Orders and the Exchange		9
		1.3.2 Alternate Exchange Structures		10
		1.3.3 Colocation		11
		1.3.4 Extended Order Types		12
	N7.3	1.3.5 Exchange Fees		13
	1.4	The Limit Order Book		14
	1.5	Bibliography and Selected Readings		18
2	A Pr	imer on the Microstructure of Financial Markets		19
	2.1	Market Making		20
		2.1.1 Grossman–Miller Market Making Model		21
		2.1.2 Trading Costs	5.2	24
		2.1.3 Measuring Liquidity		26
		2.1.4 Market Making using Limit Orders		28
	2.2	Trading on an Informational Advantage		30
	2.3	Market Making with an Informational Disadvantage		34
		2.3.1 Price Dynamics		36
		2.3.2 Price Sensitive Liquidity Traders		37
	2.4	Bibliography and Selected Readings		37
		5.3.3 Verification		
3	Emp	irical and Statistical Evidence: Prices and Returns		39
	3.1	Introduction		39
		3.1.1 The Data		39
		3.1.2 Daily Asset Prices and Returns		41

		3.1.3 Daily Trading Activity	42
		3.1.4 Daily Price Predictability	42
	3.2	Asset Prices and Returns Intraday	46
	3.3	Interarrival Times	48
	3.4	Latency and Tick Size	49
	3.5	Non-Markovian Nature of Price Changes	52
	3.6	Market Fragmentation	54
	3.7	Empirics of Pairs Trading	57
	3.8	Bibliography and Selected Readings	60
	Emp	irical and Statistical Evidence: Activity and Market Quality	61
	4.1	Daily Volume and Volatility	61
	4.2	Intraday Activity	63
		4.2.1 Intraday Volume Patterns	65
		4.2.2 Intrasecond Volume Patterns	67
		4.2.3 Price Patterns	68
	4.3	Trading and Market Quality	69
		4.3.1 Spreads	71
		4.3.2 Volatility	76
		4.3.3 Market Depth and Trade Size	79
		4.3.4 Price Impact	81
		4.3.5 Walking the LOB and Permanent Price Impact	87
	4.4	Messages and Cancellation Activity	90
	4.5	Hidden Orders	95
	4.6	Bibliography and Selected Readings	96
п	Math	nematical Tools	97
	Intro	oduction to Part II	99
	Stoc	hastic Optimal Control and Stopping	100
	5.1	Introduction	100
	5.2	Examples of Control Problems in Finance	101
		5.2.1 The Merton Problem	101
		5.2.2 The Optimal Liquidation Problem	102
		5.2.3 Optimal Limit Order Placement	103
	5.3	Control for Diffusion Processes	103
		5.3.1 The Dynamic Programming Principle	105
		5.3.2 Dynamic Programming Equation / Hamilton-Jacobi-	
		Bellman Equation	. 107
		5.3.3 Verification	112
	5.4	Control for Counting Processes	113
		5.4.1 The Dynamic Programming Principle	114
		5.4.2 Dynamic Programming Equation / Hamilton-Jacobi-	
		Bellman Equation	115

4

Part

5

		Contents	ix
AUCTION DE			
		5.4.3 Combined Diffusion and Jumps	120
	5.5	Optimal Stopping	122
. 225		5.5.1 The Dynamic Programming Principle	124
		5.5.2 Dynamic Programming Equation	124
	5.6	Combined Stopping and Control	128
	5.7	Bibliography and Selected Readings	130
Part III	Algo	rithmic and High-Frequency Trading	131
	Intro	duction to Part III	133
6	Opti	mal Execution with Continuous Trading I	134
	6.1	Introduction	134
	6.2	The Model	135
	6.3	Liquidation without Penalties only Temporary Impact	139
	6.4	Optimal Acquisition with Terminal Penalty and Temporary Impact	141
	6.5	Liquidation with Permanent Price Impact	144
	6.6	Execution with Exponential Utility Maximiser	150
	6.7	Non-Linear Temporary Price Impact	152
	6.8	Bibliography and Selected Readings	154
	6.9	Exercises double-off-the publicity to build to \$2.00	155
7	Opti	mal Execution with Continuous Trading II	158
	7.1	Introduction	158
	7.2	Optimal Acquisition with a Price Limiter	159
	7.3	Incorporating Order Flow	167
		7.3.1 Probabilistic Interpretation	174
	7.4	Optimal Liquidation in Lit and Dark Markets	175
		7.4.1 Explicit Solution when Dark Pool Executes in Full	178
	7.5	Bibliography and Selected Readings	182
	7.6	Exercises	182
8	Opti	mal Execution with Limit and Market Orders	184
	8.1	Introduction	184
	8.2	Liquidation with Only Limit Orders	185
	8.3	Liquidation with Exponential Utility Maximiser	193
	8.4	Liquidation with Limit and Market Orders	196
	8.5	Liquidation with Limit and Market Orders Targeting Schedules	206
	8.6	Bibliography and Selected Readings	209
	8.7	Exercises	209
9	Targ	eting Volume	212
	9.1	Introduction	212
	9.2	Targeting Percentage of Market's Speed of Trading does not be the second	215
		9.2.1 Solving the DPE when Targeting Rate of Trading	216

х

		9.2.2 Stochastic Mean-Reverting Trading Rate	220
		9.2.2 Stochastic Mean-Reverting Trading Rate9.2.3 Probabilistic Representation	220
		9.2.4 Simulations	222
	9.3	Percentage of Cumulative Volume	223
	0.0	9.3.1 Compound Poisson Model of Volume	231
		9.3.2 Stochastic Mean-Reverting Volume Rate	231
		9.3.3 Probabilistic Representation	232
	9.4	Including Impact of Other Traders	235
	0.1	9.4.1 Probabilistic Representation	237
		9.4.2 Example: Stochastic Mean-Reverting Volume	238
	9.5	Utility Maximiser	239
		9.5.1 Solving the DPE with Deterministic Volume	240
	9.6	Bibliography and Selected Readings	243
	9.7	Exercises	243
10	Mark	et Making	246
	10.1	Introduction	246
	10.2	Market Making	247
		10.2.1 Market Making with no Inventory Restrictions	253
		10.2.2 Market Making At-The-Touch	254
		10.2.3 Market Making Optimising Volume	257
	10.3	Utility Maximising Market Maker	259
	10.4	Market Making with Adverse Selection	261
		10.4.1 Impact of Market Orders on Midprice	262
		10.4.2 Short-Term-Alpha and Adverse Selection	266
	10.5	Bibliography and Selected Readings	271
	10.6	Exercises	272
11		Trading and Statistical Arbitrage Strategies	273
	11.1	Introduction	273
	11.2	Ad Hoc Bands	274
	11.3	Optimal Band Selection	277
184		11.3.1 The Optimal Exit Problem	278
		11.3.2 The Optimal Entry Problem	279
		11.3.3 Double-Sided Optimal Entry-Exit	281
	11.4	Co-integrated Log Prices with Short-Term-Alpha	283
		11.4.1 Model Setup	284
		11.4.2 The Agent's Optimisation Problem	286
		11.4.3 Solving the DPE	. 288
	11 5	11.4.4 Numerical Experiments	292
	11.5	Bibliography and Selected Readings	294
12	0.1	Introduction principal and Programming Principal and Provide and P	005
12		r Imbalance Introduction	295 295
	14.1	Introduction	295

-							
С	0	n	÷.	0	n	÷	C
			11.4	-		н.	-

	12.2	Intraday Features	295
		12.2.1 A Markov Chain Model	297
		12.2.2 Jointly Modelling Market Orders	300
		12.2.3 Modelling Price Jumps	303
	12.3	Daily Features	305
	12.4	Optimal Liquidation	306
		12.4.1 Optimisation Problem	308
	12.5	Bibliography and Selected Readings	313
	12.6	Exercises	313
			015
Appendix		Stochastic Calculus for Finance	315
	A.1	Diffusion Processes	315
		A.1.1 Brownian Motion	316
		A.1.2 Stochastic Integrals	316
	A.2	Jump Processes	319
	A.3	Doubly Stochastic Poisson Processes	322
	A.4	Feynman–Kac and PDEs	325
	A.5	Bibliography and Selected Readings	326
	Biblic	ography	327
	Gloss	sary	337
	Subje	ect index	342