Double Auction Dynamics: Structural Effects of Non-Binding Price Controls

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Abstract

In competitive equilibrium, non-binding price controls (that is, price floors below and ceilings above the equilibrium) should not affect market outcomes, but in laboratory experiments they do. We build a simple dynamic model of double auction markets with “zero-intelligence” (ZI) computer traders that accounts for many, though not all, of the discrepancies between the data and the Walrasian tatonnement predictions. The success of the model in organizing the data, and in isolating various consequences of price controls, shows that the simple ZI model is a powerful tool to gain insights into the dynamics of market institutions.

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