TOPIC: Limited Attention, Market Speculation, and the Effect of Electronic Trading: Evidence from the Wholesale Automotive Market
SPEAKER: Eric Overby (Georgia Tech)
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ABSTRACT

A tenet of behavioral economics and finance is that economic actors make systematic errors that other actors can exploit. Using data from the wholesale automotive market from 2003 to 2009, we show that sellers make systematic errors when choosing the selling location for their vehicles and that speculators exploit this by purchasing these vehicles and reselling them at a different location. We provide evidence that these errors are due to limited attention and cost sellers approximately $35 million per year. Although these costs are small for any given seller, in aggregate they have created a robust industry for speculators. However, electronic trading has made speculation more difficult by improving market efficiency, thereby shrinking the speculation industry and reducing the cost of sellers’ limited attention. Our results contribute to the literature on spatial arbitrage and market integration, the effect of limited attention on market outcomes, and the effect of information technology on market efficiency.

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