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Larissa Katharina Senninger

Wisdom of the Crowd in Experiments



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Abstract

This paper analyses the phenomenon of wisdom of the crowd in experimental capital markets. Aiming to find out which market mechanism can aggregate different information in a meaningful way, a continuous double auction and a call auction mechanism are tested. The traded assets are glasses filled with different types of coins. Market participants receive different information about the value of the coins in the glasses. In line with expectations, markets with continuous double auction mechanism are better able to aggregate information and additionally take a shorter time. The deviation of market prices from the real values of the respective glasses in the continuous double auction is about half as big as the deviation in the call auction. Additionally, all participants were asked to give estimations about the real value of glasses before and after trading. This allows the analysis of the development of participants' beliefs after receiving different information and after trading. Receiving more information enables subjects to make better estimations, whereas more information improves the quality of estimations significantly only if it is a lot more information. Also, trading in a continuous double auction spreads more information among market participants in fewer rounds of trading compared to information distribution while trading in a call auction.