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Title: "Equilibria and price discovery in double auction markets"

Abstract

Most securities and commodities exchanges are based on the double auction mechanism where agents submit buy and sell limit orders and the most generous offers are matched to trade. Extensive research in experimental economics has found that the double auction mechanism tends to lead to an equilibrium but the equilibration process has not been explained mathematically. This presentation formulates the problem in the classical model of exchange economies and proves that the allocations and market clearing prices produced by double auctions indeed converge to individually rational Pareto equilibria and the corresponding competitive equilibrium prices.