

Corporate Finance - Market Microstructure

Ph.D. Reading List Fall 2006

Key: ☞ required, ✓ suggested.

I. Corporate Finance

A. Game Theory

1. ☞Thakor, Anjan "Game Theory in Finance," *Financial Management*, Spring 1991, 71-94.
2. ✓Cho, In-Koo and David Kreps "Signaling Games and Stable Equilibria," *Quarterly Journal of Economics*, 102(2), May 1987, 179-221.
3. ✓Banks, Jeffrey and Joel Sobel "Equilibrium Selection in Signaling Games," *Econometrica*, 55(3), May 1987, 647-661.

B. Optimal Debt Levels and Debt Markets: Discrete Time Models

1. ☞Arturo Bris and Ivo Welch, "The Optimal Concentration of Creditors," *Journal of Finance*, October 2005, 2212.
2. ☞A. Burak Güner, "Loan Sales and the Cost of Corporate Borrowing," *Review of Financial Studies*, Summer 2006, 687-716.
3. ☞Hotchkiss, Edith and Tavy Ronen, "The Informational Efficiency of the Corporate Bond Market: An Intraday Analysis," *Review of Financial Studies*, Winter 2002, 1325-1354.
4. ☞Allen N. Berger, Marco A. Espinosa-Vega, W. Scott Frame, and Nathan H. Miller, "Debt Maturity, Risk, and Asymmetric Information," *Journal of Finance*, December 2005, 2895-2923.
5. ☞Banerjee, Priyodorshi, "Information Acquisition Under Uncertainty in Credit Markets," *Review of Financial Studies*, Fall 2005, 1075-1104.
6. ✓Cantillo, Miguel, "A Theory of Corporate Capital Structure and Investment," *Review of Financial Studies*, Winter 2004, 1103-1128.
7. ✓Chemmanur, Thomas and Paolo Fulghieri "Reputation, Renegotiation, and the Choice Between Bank Loans and Publicly Traded Debt," *Review of Financial Studies*, 7(3), Fall 1994, 475-506.

8. ✓Mark T. Leary and Michael R. Roberts, "Do Firms Rebalance Their Capital Structures?," *Journal of Finance*, December 2005, 2575-2619.
9. Morellec, Erwan, "Can Managerial Discretion Explain Observed Leverage Ratio?," *Review of Financial Studies*, Spring 2004, 257-294.
10. Ho Eom, Young, Jean Helwege, and Jing-Zhi Huang, "Structural Models of Corporate Bond Pricing: An Empirical Analysis," *Review of Financial Studies*, Summer 2004, 499-544.
11. Hennessy, Christopher, and Toni Whited, "Debt Dynamics," *Journal of Finance*, June 2005, 1129-1166.
12. Baker, Malcolm and Jeffrey Wurgler, "Market Timing and Capital Structure," *Journal of Finance*, February 2002, 1-32.
13. Acharya, Viral and Jennifer Carpenter, "Corporate Bond Valuation and Hedging with Stochastic Interest Rates and Endogenous Bankruptcy," *Review of Financial Studies*, Winter 2002, 1355-1383.
14. ✓Cantillo, Miguel and Julian Wright "How Do Firms Choose their Lenders? An Empirical Investigation," *Review of Financial Studies*, 13, Spring 2000, 155-190.
15. ✓Chevalier, Judith "Do LBO Supermarkets Charge More? An Empirical Analysis of the Effects of LBOs on Supermarket Pricing," *Journal of Finance*, 50(4), September 1995, pages 1095-1112.
16. ✓Harris, Milton and Artur Raviv "The Theory of Capital Structure," *Journal of Finance*, 46(1), March 1991, 297-355.
17. Brennan, Michael and Alan Kraus "Efficient Financing under Asymmetric Information," *Journal of Finance*, 42(5), December 1987, 1225-1243.
18. Shah, Kshithi "The Nature of Information Conveyed by Pure Capital Structure Changes," *Journal of Financial Economics*, 36(1), August 1994, 89-126.
19. Fulghieri, Paolo and S. Nagarajan "Financial Contracts as Lasting Commitments: The Case of a Leveraged Oligopoly," *Journal of Financial Intermediation*, 2, 1992, 2-32.
20. Fluck, Z. "Optimal Financial Contracting: Debt Versus Outside Equity," *Review of Financial Studies*, 11, 1998, 383-418

C. Optimal Debt Levels and Debt Markets: Continuous Time Models

1. ☞Leland, Hayne "Corporate Debt Value, Bond Covenants, and Optimal Capital Structure," *Journal of Finance*, 49(4), September 1994, 1213-1252.
2. ☞Jianjun Miao, "Optimal Capital Structure and Industry Dynamics," *Journal of Finance*, December 2005, 2621-2659.
3. ✓Leland, Hayne and Klaus Toft "Optimal Capital Structure, Endogenous Bankruptcy, and the Term Structure of Credit Spreads," *Journal of Finance*, 51(3), July 1996, pages 987-1019.

D. Industry Structure and Optimal Debt Levels

1. ☞Brander, James-A., Lewis, Tracy R. "Oligopoly and Financial Structure: The Limited Liability Effect," *American Economic Review*, 76(5), December 1986, 956-70.
2. ☞Maksimovic, Vojislav and Pegaret Pichler, 2001, "Technological Innovation and Initial Public Offerings," *Review of Financial Studies*, 14(2), 459-494.
3. ☞Peter Mackay and Gordon M. Phillips, "How Does Industry Affect Firm Financial Structure?," *Review of Financial Studies*, Winter 2005, 1433-1466.
4. ☞Matthew Spiegel and Heather Tookes, "Dynamic Competition, Innovation and Strategic Financing," 2006, Yale Working Paper.
5. Khanna, N., and S. Tice, "Strategic Responses of Incumbents to New Entry: The Effect of Ownership Structure, Capital Structure, and Focus," *Review of Financial Studies*, 13, Fall 2000, 749-780.

E. Event Study Methodology

1. ☞Eberhar, Allan and Richard Sweeney "Does the Bond Market Predict Bankruptcy Settlements?," *Journal of Finance*, 47, July 1992, 943-980.
2. ☞Byun, Jinho and Michael Rozeff, "Long-run Performance After Stock Splits: 1927-1996," *Journal of Finance*, June 2003, 1063-1086.
3. ☞Schultz, Paul, "Pseudo Market Timing and the Long-Run Underperformance of IPOs," *Journal of Finance*, April 2003, 483-518.

4. ☞Butler, Alexander, Gustavo Grullon and James Weston, "Can Managers Forecast Aggregate Market Returns?" *Journal of Finance*, April 2005, 963-986.
5. ✓Prabhala, N.R., "Conditional Methods in Event Studies and an Equilibrium Justification for Standard Event-Study Procedures," *Review of Financial Studies*, 10(1), Spring 1997, 1-38.
6. Berk, Jonathan, "A Critique of Size-Related Anomalies ," *Review of Financial Studies*, 8(2), Summer 1995, pages 275-86.

F. Bankruptcy

1. ☞Driessen, Joost, "Is Default Event Risk Priced in Corporate Bonds?," *Review of Financial Studies*, Spring 2005, 165-196.
2. ☞Wang, Ko, Leslie Young, and Yuqing Zhou, "Nondiscriminating Foreclosure and Voluntary Liquidating Costs," *Review of Financial Studies*, Summer 2002, 959-985.
3. ☞Franks, Julian and Walter Torous "A Comparison of Financial Recontracting in Distressed Exchanges and Chapter 11 Reorganizations," *Journal of Financial Economics*, 35(3), June 1994, 349-370.
4. Kahl, Matthias "Economic Distress, Financial Distress, and Dynamic Liquidation," *Journal of Finance*, February 2002, 135-168.
5. Mooradian, Robert "The Effect of Bankruptcy Protection on Investment: Chapter 11 as a Screening Device," *Journal of Finance*, 49, September 1994, 1403-1430.
6. ✓Gils-on, S., E. Hotchkiss, and R. Ruback, "Valuation of Bankrupt Firms," *Review of Financial Studies*, 13, Spring 2000, 43-74.
7. ✓Haugen, Robert and Lemma Senbet "Bankruptcy and Agency Costs: Their Significance to the Theory of Optimal Capital Structure," *Journal of Financial and Quantitative Analysis*, 23, March 1988, 27-38.
8. Gosnell, Thomas, Arthur Keown and John Pinkerton "Bankruptcy and Insider Trading: Differences Between Exchange-Listed and OTC Firms," *Journal of Finance*, 47, March 1992, 349-362.

9. Weiss, Lawrence "Bankruptcy Resolution: Direct Costs and Violation of Priority Claims," *Journal of Financial Economics*, 27, October 1990, 285-314.
10. Gilson, Stuart "Bankruptcy, Boards, Banks, and Blockholders: Evidence on Changes in Corporate Ownership and Control When Firms Default," *Journal of Financial Economics*, 27, October 1990, 355-387.
11. Eberhart, Allan, William Moor, and Rodney Roenfeldt "Security Pricing and Deviations from the Absolute Priority Rule in Bankruptcy Proceedings," *Journal of Finance*, 45, December 1990, 1457-1469.
12. Loderer, Claudio and Dennis Sheehan "Corporate Bankruptcy and Managers' Self-Serving Behavior," *Journal of Finance*, 44, September 1989, 1059-1075.
13. Detragiache, Enrica "Public Versus Private Borrowing: A Theory with Implications for Bankruptcy Reform," *Journal of Financial Intermediation*, 3(4), September 1994, 327-354.

G. Capital Allocation

1. Goel, Anand Mohan, Vikram Nanda, and M.P. Narayanan, "Career Concerns and Resource Allocation in Conglomerates," *Review of Financial Studies*, Spring 2004, 99-128.
2. Bernardo, Antonio, Hongbin Cai, and Jiang Luo, "Capital Budgeting in Multidivision Firms: Information, Agency and Incentives," *Review of Financial Studies*, Fall 2004, 739-768.
3. Marino, Anthony and John Matsusaka, "Decision Processes, Agency Problems, and Information: An Economic Analysis of Capital Budgeting Procedures," *Review of Financial Studies*, Spring 2005, 301-326.
4. James Dow and Clara C. Raposo, "CEO Compensation Change, and Corporate Strategy," *Journal of Finance*, December 2005, 2701-2727.
5. Billett, Matthew, and David Mauer, "Cross-Subsidies, External Financing Constraints, and the Contribution of the Internal Capital Market to Firm Value," *Review of Financial Studies*, Winter 2003, 1167-1202.
6. Berkovitch, Elazar, and Ronan Israel, "Why the NPV Criterion does not Maximize NPV," *Review of Financial Studies*, Spring 2004, 239-256.

H. Security Design

1. ☞ Arnoud W. A. Boot, Radhakrishnan Gopalan, and Anjan V. Thakor, "The Entrepreneur's Choice Between Private and Public Ownership," *Journal of Finance*, April 2006, 803-836.
2. ☞ Townsend, Robert "Optimal Contracts and Competitive Markets with Costly State Verification," *Journal of Economic Theory*, 21(2), October 1979, 265-293.
3. ☞ Nachman, David and Thomas Noe "Optimal Design of Securities Under Asymmetric Information," *Review of Financial Studies*, 7(1), Spring 1994, 1-44.
4. ✓ DeMarzo, Peter, "The Pooling and Tranching of Securities: A Model of Informed Speculation," *Review of Financial Studies*, Spring 2005, 1-36.
5. ✓ Admati, Anat and Paul Pfleiderer "Robust Financial Contracting and the Role of Venture Capitalists," *Journal of Finance*, 49(2), June 1994, 371-402.
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8. Harris, Milt and Art Raviv "The Design of Securities," *Journal of Financial Economics*, 24(2), October 1989, 255-87.
9. Harris, Milt and Art Raviv "Corporate Governance: Voting Rights and Majority Rules," *Journal of Financial Economics*, 20(1/2), Jan./Mar. 1988, 203-35.
10. Grossman, Sandy and Olivar Hart "One Share-One Vote and the Market for Corporate Control," *Journal of Financial Economics*, 20(1/2), Jan./Mar. 1988, 175-202.
11. Ravid, Avri and Matthew Spiegel "Optimal Financial Contracts for a Start-Up with Unlimited Operating Discretion," *Journal of Financial and Quantitative Analysis*, 32(3), September 1997, 269-86.

12. DeMarzo, Peter and Darrell Duffie "A Liquidity-Based Model of Security Design," forthcoming *Econometrica*.

I. Initial Public Offers

1. ☞ Andrew Ellul and Marco Pagano, "IPO Underpricing and After-Market Liquidity," *Review of Financial Studies*, Summer 2006, 381-422.
2. ☞ Altı, Aydogan, "IPO Market Timing," *Review of Financial Studies*, Fall 2005, 1105-1138.
3. ☞ Corwin, Shane, and Paul Schultz, "The Role of IPO Underwriting Syndicates: Pricing, Information Production, and Underwriter Competition," *Journal of Finance*, February 2005, 443-486.
4. ☞ Schenone, Carola, "The Effect of Banking Relationships on the Firm's IPO Underpricing," *Journal of Finance*, December 2004, 2903-2958.
5. ☞ Derrien, Francois and Kent Womack, "Auctions vs. Bookbuilding and the Control of Underpricing in Hot IPO Markets," *Review of Financial Studies*, Spring 2003, 31-61.
6. ☞ Katharina Lewellen, "Risk, Reputation, and IPO Price Support," *Journal of Finance*, April 2006, 613-653.
7. ☞ Fulghieri, Paolo and Matthew Spiegel "A Theory of the Distribution of Underpriced Initial Public Offers by Investment Banks," *Journal of Economics and Management Strategy*, 2(4), Winter 1993, 509-530.
8. ✓ Welch, Ivo "Seasoned Offerings, Imitation Costs, and the Underpricing of Initial Public Offerings," *Journal of Finance*, 44(2), June 1989, 421-449.
9. ✓ Benveniste, Lawrence and Paul Spindt "How Investment Bankers Determine the Offer Price and Allocation of New Issues," *Journal of Financial Economics*, 24(2), 1989, 343-362.
10. Sherman, A., "IPOs and Long-Term Relationships: An Advantage of Book Building," *Review of Financial Studies*, 2000, 13, 697-714.
11. Aggarwal, Reena, Nagpurmanand Prabhala, and Manju Puri, "Institutional Allocation in Initial Public Offerings: Empirical Evidence," *Journal of Finance*, June 2002, 1421-1442.

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13. Maksimovic, Vojislav, and Pegaret Pichler, "Technological Innovation and Initial Public Offerings," *Review of Financial Studies*, 14(2), 2001, 459-494.
14. Hanley, Kathleen-Weiss "The Underpricing of Initial Public Offerings and the Partial Adjustment Phenomenon," *Journal of Financial Economics*, 34(2), October 1993, 231-250.
15. Grinblatt, Mark and Chuan-Yang Hwang "Signalling and the Pricing of New Issues," *Journal of Finance*, 47(5), December 1992, 1977-84.
16. Welch, Ivo "An Empirical Examination of Models of Contract Choice in Initial Public Offerings," *Journal of Finance and Quantitative Analysis*, 24(4), December 1991, 497-518.
17. Altinkiliç, O., and R. Hansen "Are There Economies of Scale in Underwriting Fees? Evidence of Rising External Financing Costs," *Review of Financial Studies*, 13, Spring 2000, 191-218.

J. Mergers and Corporate Control

1. ☞ Hartzell, Jay, Eli Ofek, and David Yermack, "What's In It for Me? CEO's Whose Firms are Acquired," *Review of Financial Studies*, Spring 2004, 37-62.
2. ☞ Moeller, Sara, Frederik Schlingemann, and Rene Stulz, "Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave," *Journal of Finance*, April 2005, 757-782.
3. Bange, Mary, and Michael Mazzeo, "Board Composition, Board Effectiveness, and the Observed Form of Takeover Bids," *Review of Financial Studies*, Winter 2004, 1185-1215.
4. ☞ Noe, Thomas "Investor Activism and Financial Market Structure," *Review of Financial Studies*, Spring 2002, 289-318.
5. Amihud, Yakov, Marcel Kahan, and Rangarajan Sundaram, "The Foundations of Freezeout Laws in Takeovers," *Journal of Finance*, June 2004, 1325-1344.

6. ✓ Fuller, Kathleen, Jeffrey Netter, and Mike Stegemoller, "What Do Returns to Acquiring Firms Tell Us? Evidence from Firms That Make Many Acquisitions," *Journal of Finance*, August 2002, 1763-1793.
7. ✓ Bradley, Michael, Anand Desai, and E. Han Kim "Synergistic Gains From Corporate Acquisitions and their Division Between the Stockholders of Target and Acquiring Firms," *Journal of Financial Economics*, 21(1), May 1988, 3-40.
8. ✓ Avery, Christopher, Judith Chevalier, and Scott Schaefer, "Why Do Managers Undertake Acquisitions? An Analysis of Internal and External Rewards for Acquisitiveness," *Journal of Law, Economics, and Organization*, 14(1), April 1998, 24-43.
9. ✓ Harris, Milton and Artur Raviv "Corporate Control Contests and Capital Structure," *Journal of Financial Economics*, 20(1/2), January/March 1988, 55-86.
10. Betton, Sandra, and B. Espen Eckbo, "Toeholds, Bid Jumps, and Expected Payoffs in Takeovers," *Review of Financial Studies*, 13(4), 2000, 841-882.
11. ✓ Israel, Ronan "Capital Structure and the Market for Corporate Control: The Defensive Role of Debt Financing," *Journal of Finance*, 46(4), September 1991, 1391-1409.
12. Warga, Arthur and Ivo Welch "Bondholder Losses in Leveraged Buyouts," *Review of Financial Studies*, 6(4), Winter 1993, 959-82.
13. Singh, R. "Takeover Bidding with Toeholds: the Case of the Owner's Curse," *Review of Financial Studies*, 11, 1998, 679-704.
14. Karpoff, Jonathan and Paul Malatesta "The Wealth Effects of Second Generation State Takeover Legislation," *Journal of Financial Economics*, 25(2), December 1989, 291-322.

II. Market Microstructure and Related Topics

A. Survey

1. Madhavan, A., "Market Microstructure: A Survey," *Journal of Financial Markets*, 3, August 2000, 205-258.

2. Biais, Bruno, Larry Glosten, and Chester Spatt, "Market Microstructure: A Survey of Microfoundations, Empirical Results, and Policy Implications," *Journal of Financial Markets*, May 2005, 217-264.

B. Inventory Models

1. ☞ Brunermeier, Markus, and Lasse Heje Pedersen, "Predatory Trading," *Journal of Finance*, 60(4), August 2005, 1825-1864.
2. ☞ Spiegel, Matthew and A. Subrahmanyam "On Intraday Risk Premia," *Journal of Finance*, 50, 1995, 319-339.
3. ☞ Spiegel, Matthew "Stock Price Volatility in a Multiple Security Overlapping Generations Model," *Review of Financial Studies*, 11, 1998, 419-447.
4. ✓ Ho, Thomas and Hans Stoll "The Dynamics of Dealer Markets Under Competition," *Journal of Finance*, 38, September 1983, 1053-1074.
5. ✓ Hagerty, Kathleen "Equilibrium Bid-Ask Spreads in Markets with Multiple Assets," *Review of Economic Studies*, 58, April 1991, 237-257.
6. Vayanos, Dimitri, "Strategic Trading in a Dynamic Noisy Market," *Journal of Finance*, 56(1), 2001, 131-172.
7. Ho, Thomas and Hans Stoll "Optimal Dealer Pricing Under Transactions and Return Uncertainty," *Journal of Financial Economics*, 9, March 1981, 47-73.
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9. Gehrig, Thomas and Matthew Jackson "Bid-Ask Spreads with Indirect Competition Among Specialists," *Journal of Financial Markets*, 1(1), April 1998, 89-120.

C. Strategic Traders, Noise, and Risk Neutral Specialists (Kyle Models)

1. ✓ Kyle, Albert "Continuous Auctions and Insider Trading," *Econometrica*, 53, 1985, 1315-1335.

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5. ✓Foster, Douglas and S. Viswanathan "Strategic Trading When Agents Forecast the Forecasts of Others," *Journal of Finance*, 51(4), September 1996, pages 1437-78
6. Spiegel, Matthew and A. Subrahmanyam "Informed Speculation and Hedging in a Noncompetitive Securities Market," *Review of Financial Studies*, 5, 1992, 307-329.
7. Chowdhry, Bhagwan and Vikram Nanda "Multimarket Trading and Market Liquidity," *Review of Financial Studies*, 4, 1991, 483-511.

D. Social Welfare and Market Performance with Insider Trading

1. ✎Khanna, Naveen, and Ramana Sonti, "Value Creating Stock Manipulation: Feedback Effect of Stock Prices on Firm Value," *Journal of Financial Markets*, June 2004, 237-270.
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3. ✎Charles Schnitzlein, "Price Formation and Market Quality When the Number and Presence of Insiders is Unknown," *Review of Financial Studies*, Fall 2002, 1077-1109.
4. ✎Bhattacharya, Utpal and Matthew Spiegel "Insiders, Outsiders, and Market Breakdowns," *Review of Financial Studies*, 4, 1991, 255-282.
5. ✓Leland, Hayne "Insider Trading Should it be Prohibited?," *Journal of Political Economy*, 100, August 1992, 859-887.
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10. DeMarzo, Peter, Michael Fishman, and Kathleen Hagerty “The Optimal Enforcement of Insider Trading Regulations," *Journal of Political Economy*, 1998, 106, 602-632.
11. ✓Glosten, Larry and Paul Milgrom “Bid, Ask, and Transaction Prices in a Specialist Market with Heterogeneously Informed Traders,” *Journal of Financial Economics*, 14, March 1985, 71-100.

E. Bid-Ask Spread and Supply Schedules

1. ☞Bondarenko, Oleg “Competing Market Makers, Liquidity Provision, and Bid-Ask Spreads,” *Journal of Financial Markets*, 4(3), 2001, 269-308.
2. ☞Kavajecz, Kenneth and Elizabeth Odders-White, “An Examination of Changes in Specialists’ Posted Price Schedules,” *Review of Financial Studies*, Fall 2001, 681-704.
3. ☞Huang, R. and Hans Stoll “The Components of the Bid-ask Spread: A General Approach,” *Review of Financial Studies*, 10, 1997, 995-1034.
4. Venkat Eleswarapu and Kumar Venkataraman, “The Impact of Legal and Political Institutions on Equity Trading Costs: A Cross Country Analysis,” *Review of Financial Studies*, Fall 2006, 1081-1111.
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11. ✓Ball, Cliff and Tarun Chordia "True Spreads and Equilibrium Prices," working paper Vanderbilt University, 1999.
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21. Neal, Robert and Simon Wheatley "Adverse Selection and Bid-Ask Spreads: Evidence from Closed-End Funds," *Journal of Financial Markets*, 1(1), April 1998, 121-149.

F. Liquidity and Returns

1. ☞ Elizabeth R. Odders-White and Mark J. Ready, "Credit Ratings and Stock Liquidity," *Review of Financial Studies*, Spring 2006, 119-157.
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G. Tick Size

1. ☞ Ronen, Tavy, and Daniel Weaver "'Teenies' Anyone?," *Journal of Financial Markets*, 4(3), 2001, 231-260.
2. ☞ Bacidore, Jeffrey, Robert Battalio, and Robert Jennings, "Order Submission Strategies, Liquidity Supply, and Trading in Pennies on the New York Stock Exchange," *Journal of Financial Markets* 2003, 337-362.

H. Competitive Models

1. ☞ Admati, Anat "A Noisy Rational Expectations Equilibrium for Multi-Asset Securities Markets," *Econometrica*, 53, 1985, 629-657.
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I. Information Disclosure

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J. Trading Mechanisms

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2. ☞Pierre Hillion and Matti Suominen, "The Manipulation of Closing Prices," *Journal of Financial Markets*, October 2004, 351-376.
3. ☞Madhavan, Ananth, David Porter, and Daniel Weaver, "Should Securities Markets be Transparent?," *Journal of Financial Markets*, August 2005, 265-287.

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