**Background**

We know pricing or intrinsic value is important to traders in the financial markets. Traditional asset pricing aims to understand what should be the price of a security in the market. The financial modelling usually replies on one or more simplifying assumptions. Let’s first take a look at some of the famous ones.

Limitations of traditional asset pricing

* It does not, however, address how prices adjust to reflect news.
* Nor does it explain how investors’ subjective assessment of a security “get into” the price.
* In practice, news and investors’ valuations are incorporated into security prices through ***trading***.
* This means that the specific ***trading rules***, and the ***strategies*** traders develop in response to these rules, will affect how asset prices change over time in response to new information.
* <https://www.youtube.com/watch?v=flq7Hn6oddI>
* Examples of sentimental analysis - limitations

**Market Microstructure**

* ***“Market microstructure is the study of the process and outcomes of exchanging assets under explicit trading rules.”***(Maureen O’Hara, a former president of the American Finance Association)
* Market microstructure has a profound impact on the real world – on traders, broker/dealers, exchanges, regulators, and policy makers alike.

<https://www.quora.com/Why-is-insider-trading-considered-unethical>