

LESSON 03

Fundamentals of Market Mechanics

Market Fundamentals

The basic questions on markets:

Q: What is a market?

A: A market is a cultural system

Q: How do we define market participants?

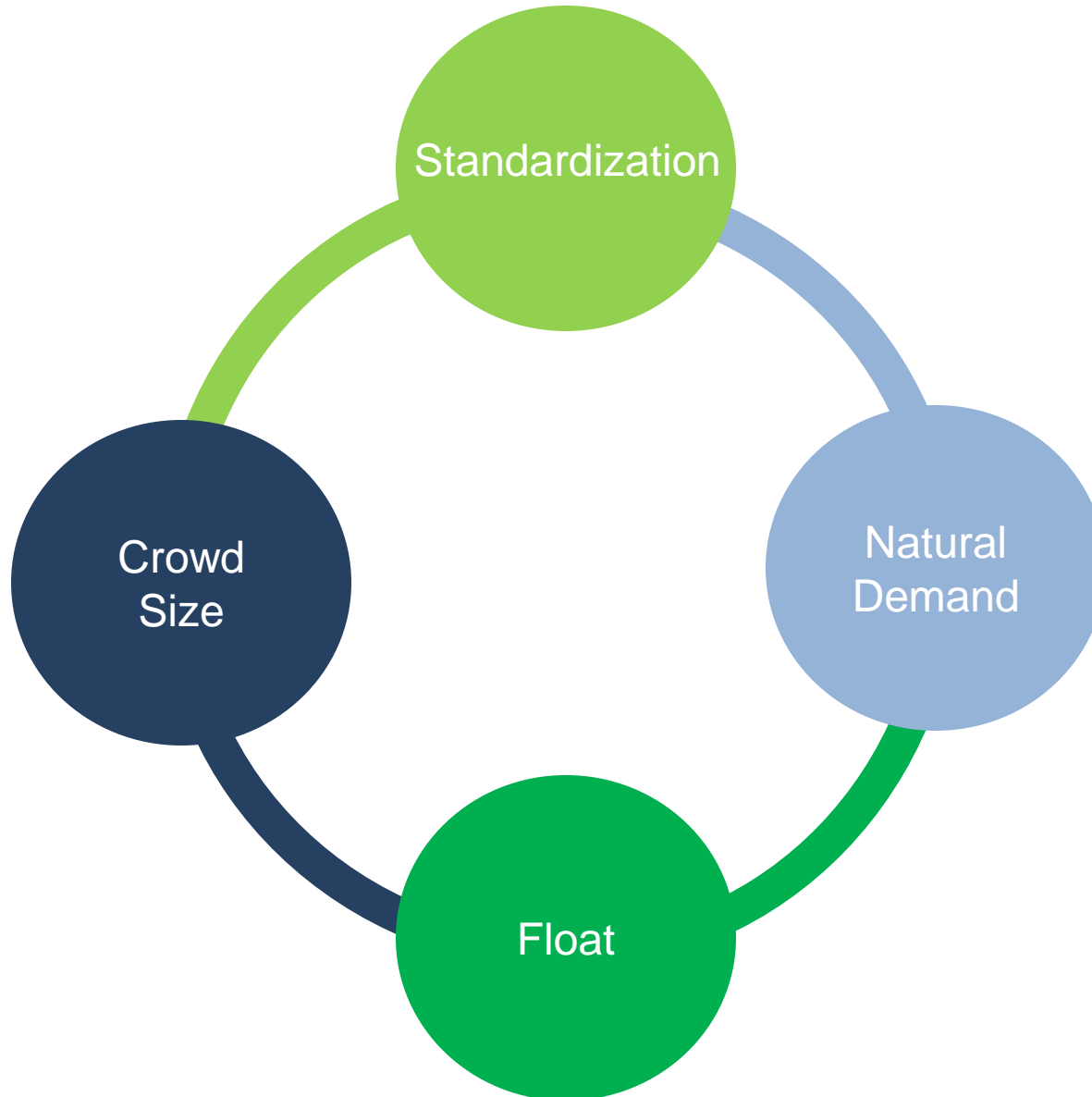
A: Liquidity Buyers and Liquidity Sellers

Q: What is “Liquidity”?

A: Predictable Immediacy

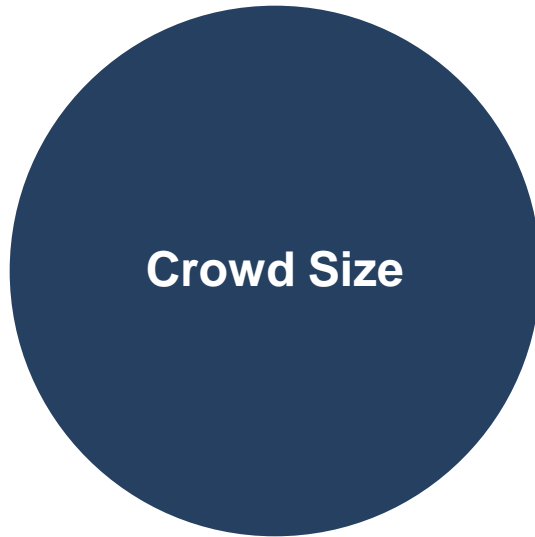
Q: What are the key elements of market mechanics?

Market Fundamentals



Key Elements

How do each of these elements impact financial market mechanics?

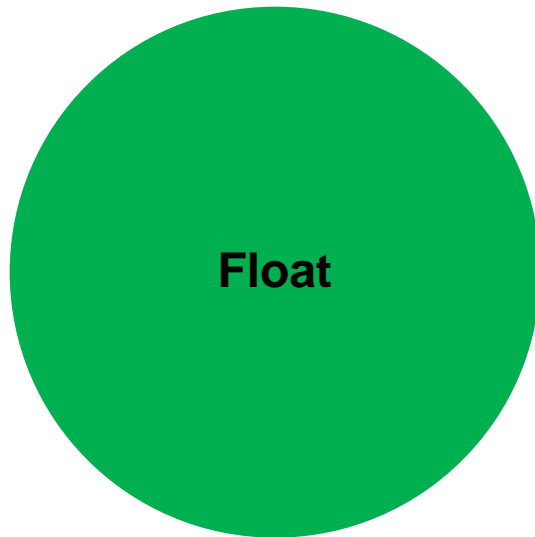


Total number of liquidity buyers and sellers

Impact: Crowd size will determine the level of market availability

Key Elements

How do each of these elements impact financial market mechanics?

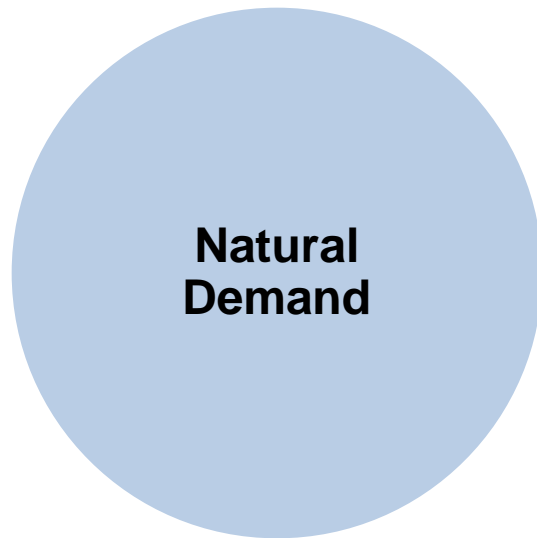


Total outstanding size of the market

Impact: Float will determine the level of product availability

Key Elements

How do each of these elements impact financial market mechanics?



Motivation of liquidity buyers

Impact: Natural demand will determine the size of the liquidity buyer group

Key Elements

How do each of these elements impact financial market mechanics?

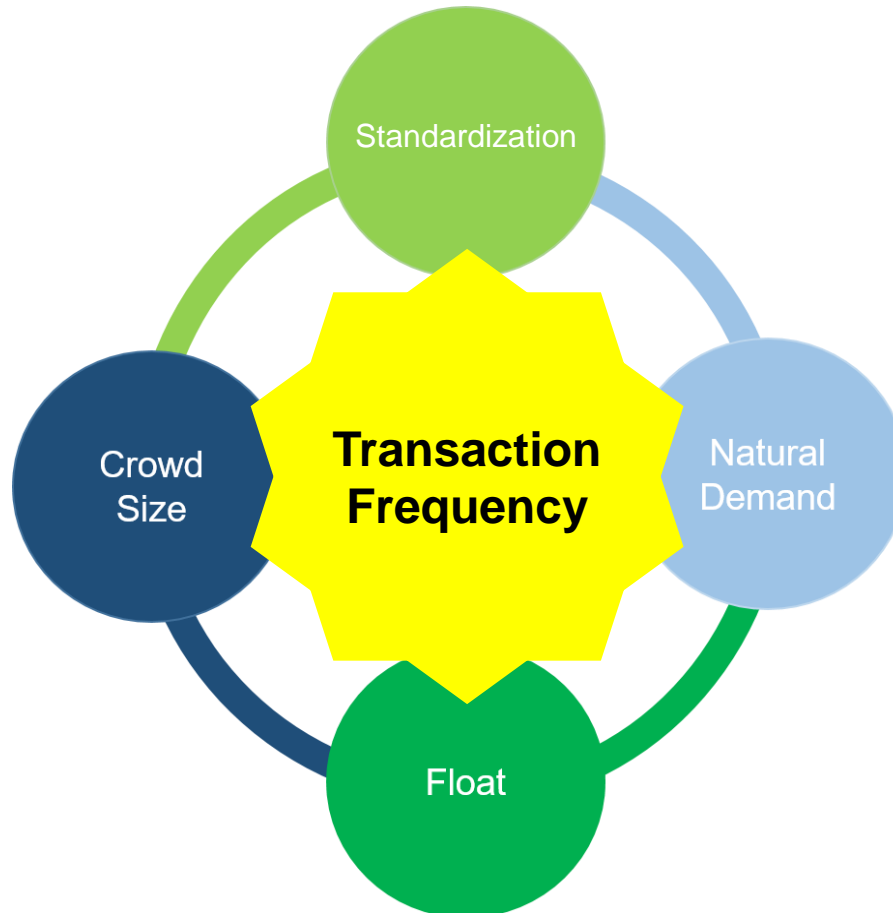


Measurement of product sameness

Impact: Standardization will determine the size of the liquidity seller group

The most powerful FORCE in markets

The combination of the key elements determine the level of the most powerful force in market development



Rate of transaction frequency determines how markets evolve