

LESSON 02

Introduction to Market Structure Science

Market Fundamentals

The basic questions on markets:

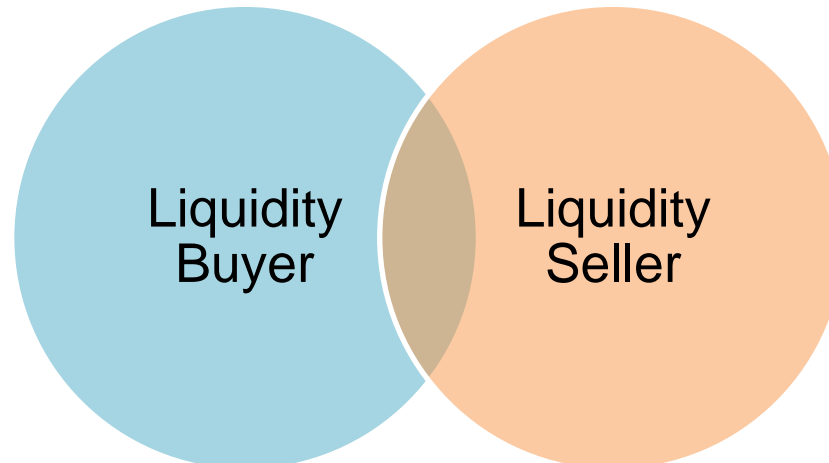
Q: What is a market?

A: A market is a cultural system

Q: How do we define market participants?

Q: What is “Liquidity”?

Every market is divided into **two fundamental groups**:

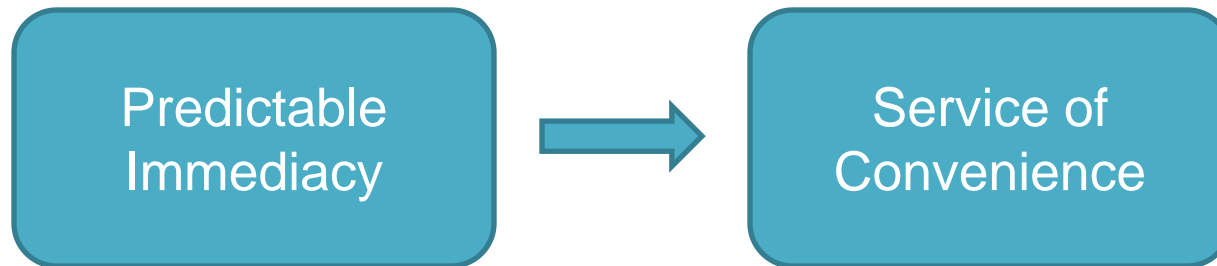


What is Liquidity?

Before we can discuss the two groups, we must agree on what liquidity is as a construct

Defining “Liquidity” is impossible because liquidity is a subjective measurement and **can not be measured quantitatively**

Liquidity is best described as “**predictable immediacy**”



In every market there is one group looking to purchase predictable immediacy and another group whose business it is to provide the service

Liquidity – Buyers and Sellers

Looking outside of financial markets, we can find numerous examples of how liquidity is demanded and provided

Real-Estate Industry

```
graph TD; A[Real-Estate Industry] --> B[Who is the buyer of liquidity?]; B --> C[Who is the seller of liquidity?]; C --> D[How is the liquidity provider compensated?];
```

Who is the buyer of liquidity?

Who is the seller of liquidity?

How is the liquidity provider compensated?

Liquidity – Buyers and Sellers

Looking outside of financial markets, we can numerous examples of how liquidity is demanded and provided

Transportation Industry

```
graph TD; A[Transportation Industry] --> B[Who is the buyer of liquidity?]; B --> C[Who is the seller of liquidity?]; C --> D[How is the liquidity provider compensated?];
```

Who is the buyer of liquidity?

Who is the seller of liquidity?

How is the liquidity provider compensated?

Liquidity – Buyers and Sellers

Looking outside of financial markets, we can find numerous examples of how liquidity is demanded and provided

Food Industry

```
graph TD; A[Food Industry] --> B[Who is the buyer of liquidity?]; B --> C[Who is the seller of liquidity?]; C --> D[How is the liquidity provider compensated?];
```

Who is the buyer of liquidity?

Who is the seller of liquidity?

How is the liquidity provider compensated?

Liquidity – Buyers and Sellers

Industry	Buyers	Sellers	Compensation
Food	Restaurant patrons, grocery store shoppers	Restaurants, Grocery Stores	Mark up
Travel	Travelers	Taxis, Public Transportation, Airlines	Mark up
Real-Estate	Buyers and sellers of property	Brokers	Explicit Commission
Financial Markets	Mutual funds, asset managers, hedge funds	Market makers, specialist, broker dealers	Mark up, commission, order flow, privileges