



MASTERTHESIS IN THE STUDY PROGRAM  
INFORMATIK – SOFTWARE AND INFORMATION  
ENGINEERING

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# Influence of network-topologies on equilibrium in continuous double-auctions.

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# **Statuatory Declaration**

I declare that I have developed and written the enclosed work completely by myself, and have not used sources or means without declaration in the text. Any thoughts from others or literal quotations are clearly marked. This Master Thesis was not used in the same or in a similar version to achieve an academic degree nor has it been published elsewhere.

# **Widmung**

Ich widme diese Arbeit meinen beiden liebenvollen Eltern, die den verlorenen Sohn nach 11 Jahren in Wien wie selbstverständlich wieder mit offenen Armen zu Hause in Vorarlberg aufgenommen haben und ihm so ein entspanntes Masterstudium ermöglichten und ihm dadurch halfen ein völlig neues Kapitel in seinem Leben aufzuschlagen.

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# Abstract

In the paper of [BSV13] a model for endogenous leverage in a continuous double-auction is introduced and it is shown under which circumstances holdings and trading prices approach an equilibrium. One main criteria is the trading network the agents use where Breuer et al. examine only two topologies and report that the prices come to an equilibrium only in the case of a fully connected network. They leave the question open on how the model behaves with different kind of networks and which network topology exactly allows an equilibrium to be reached for further research. This thesis builds upon this model and gives a hypothesis for a necessary condition a network must satisfy to allow the model to approach an equilibrium. Then a few network-topologies are examined in regard of their ability to allow equilibria to be reached or not through computer-driven simulation. As will be shown in this thesis through validation by computer-driven simulation the hypothesis turns out to be correct only after extending the simulation-model by an additional market. This result raises questions this thesis tries to answer about market-mechanisms and market-types when agents don't trade in a fully informed network.

# Chapter 1

## Introduction

TODO: überarbeiten, passt so noch nicht In 2008 the so called "Subprime Mortgage Crisis" struck the world. It was caused by declining house prices which rose during the US Housing Market Bubble in 2006 to an all-time high. Borrowers used their asset as collateral for the mortgage which constantly increased in value which guaranteed them a low payment-rate because the rate was coupled to the value of the asset. Banks granted "subprime" mortgages to more and more highly risky borrowers. In 2007 borrowers started to default which led to falling prices as the banks reclaimed the collateral and wanted to sell it again on the market to compensate for the loss. This led to a flood of assets which led to a decline of housing prices overall. As the prices fell dramatically the payment-rates rose dramatically to compensate for the cheaper asset. This in turn resulted in even more borrowers going default which resulted in a dramatic downward spiral. Even worse the banks were selling these collateralized products between each other and even insured themselves against defaults of borrowers which led to an even more dramatic kick-back.

This mechanism of borrowing money to buy goods which in turn act as a security for the borrowed money is called leverage which was determined as the primary driving force behind systemic risk in the aftermath of the "Subprime Mortgage Crisis". See Chapter 2.1 "Leverage and Systemic Risk" for a more in-depth discussion.

Up until 2010 leverage was always exogenous in the literature on collateralized credit but recently Geanakoplos and Zame ( TODO: cite) proposed theories which endogenized leverage within a general equilibrium framework.

[BSV13] developed a simulation on top of the model of Geanakoplos in which zero-intelligence agents trade assets and loans in a continuous double auction. They wanted to better understand the dynamic of such a theoretical

process and how prices develop instead of being predicted through an equilibrium theory. They TODO: zitierne "ask whether the competitive theory of trade in leveraged assets has descriptive and predictive power in a double auction environment."

4 contributions: 1. double auctions for leveraged assets is new 2. details of institutional specification matter a lot 3. limits of the endogenous leverage model 4.

They could show that in their simulation trading prices and wealth-distribution approach the theoretical equilibrium of Geanakoplos. In their simulation only a fully connected network and a hub-network of agents was investigated where the equilibrium was only reached in the case of the fully connected network. See Chapter 3. "The Leverage Cycle" for a thorough description of the simulation-model of [BSV13].

This thesis investigates more topologies of networks and their states of equilibrium. Furthermore it presents a hypothesis about the necessary property a topology of a network must satisfy to reach the theoretical equilibrium predicted in the theory of Geanakoplos. Interestingly it is shown experimentally that the hypothesis alone does not guarantee the reach of the theoretical equilibrium but further mechanisms needs to be implemented. See Chapter 4 "Hypothesis" and Chapter 6 "Results" for an in-depth explanation of both the hypothesis and why it does not hold and needs to be extended by means of an additional market-mechanism.

For experimental investigation a software was built for this thesis which implemented the exact simulation model of [BSV13] but extended it further to be applicable to arbitrary topologies. See Chapter 5 "Implementation" on details of the software.

In Chapter ?? "Theory" the theoretical background involved with this thesis is presented. First Leverage and systemic risk and its implications are discussed. Then an introduction into the mechanics of Continuous Double Auction as market-mechanisms and equilibrium theory in economics is given. Finally an overview of abstract networks, network-generating algorithms and and their properties is given.

In Chapter ?? "The Leverage Cycle" the theoretical model [BSV13] built their simulation upon is discussed in-depth.

In Chapter 4 "Hypothesis" all topologies which are investigated are introduced and the conjecture about the type of topology necessary to reach the theoretical equilibrium is presented and discussed whether the given topologies could ever approach it or not.

Chapter 5 "Implementation" gives an in-depth explanation of the implementation of the computer-driven simulation presented in [BSV13] including a description of the architecture, implementation of the markets and trading mechanisms.

Chapter 6 "Results" shows the results of simulations of all implemented topologies.

Chapter 7 "Interpretation and Discussions" connects the content of the previous chapters to show that the initial hypothesis of Chapter 4 does not satisfy the equilibrium and shows how it can be reached by introducing an additional market. Then results of simulations with this market are given and discussed where will be shown that using the additional market an equilibrium will be reached but that it is different from the theoretical predictions.

In Chapter 8 "Conclusions" a short sum-up of the thesis and questions left for further research are presented.

# **Chapter 2**

## **Theory**

TODO: der theorie-teil. Soll in die verwendete Theorie des Hauptteils einführen und darauf hinweisen, aber nicht völlig trocken und losgelöst vom hauptteil sein. Soll immer den kontext des hauptteils berücksichtigen und schon gewisse anwendungsfälle vorwegnehmen.

### **2.1 Systemic risk and Leverage**

Both are tightly coupled in a way that leverage increases systemic risk dramatically as was the case in the "Subprime Mortgage Crisis".

#### **Systemic Risk**

WIKI: It refers to the risks imposed by interlinkages and interdependencies in a system or market, where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system or market.

[Bor10]

#### **Leverage**

WIKI: In finance, leverage (sometimes referred to as gearing in the United Kingdom and Australia) is any technique to multiply gains and losses.

Accounting Leverage Notational Leverage Economic Leverage

### **2.2 Equilibrium Theory**

theoretisches: utiliy-funktionen und clearing preis in der simulation: ungeklärt, immer individuell, "steckenbleiben" vs. gleichgewicht, am ende an theoretis-

chem gleichgewicht orientiert

TODO: What is equilibrium in a process? It is NOT when no agents are able to trade anymore. TODO: Can we give an equilibrium-definition for the dynamic-process? HV: hier ein paar schlaue gedanken dazu?

## 2.3 Continuous Double Auction

Paper: gode and sunders auszüge aus dem Breuer et al. Paper und Everything you wanted to know about Continous Double-Auctions

## 2.4 Complex Networks

small-world power-law distribution generation algorithms dient hauptsächlich zur kategorisierung

TODO: In "State of the art" an overview of abstract networks and their properties is given. Also network-generating algorithms are presented and discussed. Because continuous double-auctions are the type of market which is used for matchings a short introduction is given on this topic too.

TODO: ziel hier eine theoretische übersicht über netzwerk-theorie zu geben wobei hauptaugenmerk auf die entwicklungen der letzten jahre (scale-free, small-world, ...)

Regular Graphs: [AlB99, vgl.] [New03, vgl.]

Random Graphs: but since then, most large scale networks with no apparent design principle were described as random graphs introduced by two Hungarian mathematicians Paul Erdos and Alfred Renyi [ER59, vgl.] [ER60, vgl.] Have small-world properties.

Small World Graphs or Average Path Length: Stanley Milgram [TM69] [Mil67] [Kle00]

Clustering Coefficient or Transitivity [WS98]

Degree Distribution [AlB02] Generally, it was believed that the degree distribution in most networks follows a Poisson distribution but in reality, real world networks have a highly skewed degree distribution following power-laws. Power-laws are expressions of the form  $y / x$ , where is a constant,  $x$  and  $y$  are the measures of interest [152].

Small World and Scale Free Network: A small world network as deined by Watts and Strogatz [WS98], is a network with high clustering coefficient and small average path length. A scale free network as deined by Barabasi and

Albert [AlB02], is a network where the degree distribution follows a power law.

Complex Networks: are Small-World and/or Scale-Free [BW00] [ASBS00] [Kle02] <http://www.cs.princeton.edu/chazelle/courses/BIB/big-world.htm>  
introduce Metrics: - Average degree - average path-length - average clustering coefficient - network diameter - graph density

Mathematical stuff [New06] [ACL01] [EMB02] [GP04]

## 2.5 Network-Generating Algorithms

- fully connected - ascending connected - descending connected with shortcuts
- hubs - erdos-renyi - barbasi-albert - watts-strogatz

TODO: reference to appendix a for concrete pictures of topologies

# **Chapter 3**

## **The Leverage Cycle**

Definition des Modells Märkte, Marktmechanismen, clearing, utility funktionen,... alles theoretisch, um des dann in implementierung praktisch zu zeigen Bestehende Resultate mit Bezug auf paper Fully-Connected: prozess und endverteilung, erreicht theoretisches Gleichgewicht approximativ

# Chapter 4

## Hypothesis

Eigentliche Fragestellung: Wie wichtig ist die Vollvernetzung? Allgemeine Netzwerkstrukturen untersuchen aber mit hauptaugenmerk auf Ascending-Connected d.h. reicht ascending-connected aus?

*If there exists a path between each pair of agents in which each visited agent has a monotonous increasing optimism factor than the previously visited one then theoretical equilibrium will be reached.*

# Chapter 5

## Implementation

### 5.1 Requirements

Wieso Java? Es existierte ja bereits ein "simulationsprogramm" in C++ vom Breuer-Team auf das ich zugriff hatte.

- arbitrary networks
- step-through simulation jump to points of simulation
- replications run replications from command line
- store results and open again later

## 5.2 Functionality

### 5.2.1 Inspection

### 5.2.2 Replications

### 5.2.3 Experiments

GUI

Command-Line

## 5.3 Architecture

### 5.3.1 Frontend

### 5.3.2 Controller

### 5.3.3 Backend

## 5.4 Agents

zentrale klasse, die extrem viel kapselt.

## 5.5 Markets

### 5.5.1 Asset/Cash

TODO same as in "A new market"

Price-Range

Bid-Offering

Ask-Offering

Match

### 5.5.2 Loan/Cash

TODO same as in "A new market"

Price-Range

Bid-Offering

Ask-Offering

Match

### 5.5.3 Asset/Loan

TODO same as in "A new market"

Price-Range

Bid-Offering

Ask-Offering

Match

## 5.6 Simulation

### 5.6.1 Sweeping and Matching

## 5.7 Performance improvement

Matching Wahrscheinlichkeiten Importance Sampling Lokales vs Globales  
Offerbook

## 5.8 Calculating theoretical Equilibrium

TODO analyse matlab-script of martin jandacka

# **Chapter 6**

## **Results**

In this chapter the results of the experiments are given. Each topology-type introduced in appendix A "Topologies" was simulated where in this chapter only Fully-Connected and Ascending-Connected topologies are handled as the Ascending-Connected topology - both with and without importance sampling - is the most minimal network which satisfies the requirements for the hypothesis. The results for the other topologies can be found in appendix B "Results for Hub-Based, Scale-Free and Small-World Topologies".

Note: The numbers in tables resemble always a median-value with the standard-deviation given in parentheses.

### **6.1 Validating simulation results**

As a point-of-reference and as an experimental proof for the correctness of the implementation of the thesis-software the results of a validation against both the theoretical equilibrium and the equilibrium found in [BSV13] are given. Because equilibrium differs across the number of agents and the type of bond traded to be comparable the same amount of agents and the same bond-type has to be used in the experiments which is 1000 Agents and a bond with face-value of 0.5 because [BSV13] report their equilibria only for a count of 1000 agents and bonds with face-value between 0.1 to 0.5.

### 6.1.1 References

Table 1: Theoretical equilibrium for 1,000 agents and 0.5 bond

Asset-Price p	0.715
Bond-Price q	0.374
Marginal agent i1	0.583
Marginal agent i2	0.802

Table 2: Equilibrium in [BSV13] for 1,000 agents and 0.5 bond

Asset-Price p	0.716
Bond-Price q	0.375
Marginal agent i1	0.583
Marginal agent i2	0.801
Pessimist Wealth	1.716
Medianist Wealth	4.578
Optimist Wealth	5.032

### 6.1.2 Thesis results

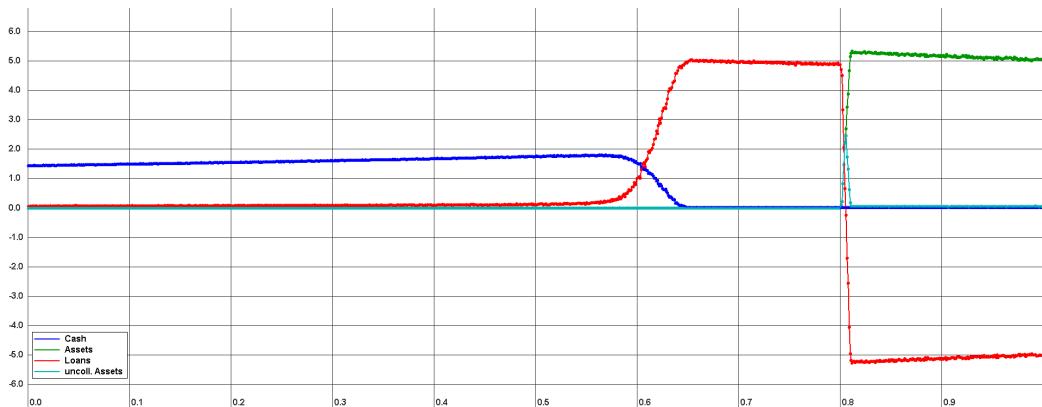


Figure 1: Wealth-Distribution of thesis-implementation of Fully-Connected topology for 1,000 agents and 0.5 bond

Table 3: Equilibrium of thesis-implementation for 1,000 agents and 0.5 bond

Asset-Price p	0.700 (0.005)
Bond-Price q	0.389 (0.002)
Marginal agent i1	0.616 (0.004)
Marginal agent i2	0.805 (0.001)
Pessimist Wealth	1.582 (0.01)
Medianist Wealth	4.578 (0.031)
Optimist Wealth	5.105 (0.025)

Table 4: Difference of Fully-Connected topology equilibrium as given in table 3 to theoretical equilibrium as given in table 1

	Result	Reference	difference to Reference
Asset-Price p	0.700	0.715	-2.1%
Bond-Price q	0.389	0.374	+4.0%
Marginal agent i1	0.616	0.583	+5.6%
Marginal agent i2	0.805	0.802	+0.4%

Table 5: Difference of Fully-Connected topology wealth-equilibrium as given in table 3 to wealth-equilibrium as given in [BSV13] from table 2

	Result	Reference	difference to Reference
Pessimist Wealth	1.582	1.716	-7.8%
Medianist Wealth	4.578	4.578	0.0%
Optimist Wealth	5.105	5.032	+1.5%

Although marginal agent i1 and bond-price q are quite different than from theoretical equilibrium and the pessimists wealth is 7.8% less than given in [BSV13] these results are accepted as reaching the equilibrium. The differences emerge from the reasons that the thesis-simulation runs were terminated earlier than in [BSV13] which results in the i1 and i2 edges to be not as sharp as reported in [BSV13]. It would be necessary to run the simulation an order of magnitude longer as the matching probabilities are reduced rapidly when only direct neighbours are able to trade any more within a network of 1000 agents. See section 5.7 "Performance improvement" for details on matching-probabilities.

### 6.1.3 Performance Measurements

As noted in section 5.6.1 "Sweeping and Matching" a matching-round performs up to 500 offering-rounds where during one round all agents make an offer to find a match. If a match occurs during one offering-round the current matching-round is terminated and marked as successful. If no match occurs during all 500 offering-rounds the current matching-round is terminated too but marked as failed. Thus the following terminology is defined:

**Successful matching-round** a match occurred within maximal 500 offering-rounds where in each offering-round all agents make an offer.

**Failed matching-round** no match occurred within 500 offering-rounds where in each offering-round all agents make an offer.

Table 6: Performance of thesis-implementation with 1000 agents and 0.5 bond

Successful matching-rounds	19,300.04 (101.68)
Failed matching-rounds	10,306.78 (2914.11)
Total matching-rounds	29,606.82 (2938.82)
Ratio successful/total	0.65
Ratio failed/total	0.35

## 6.2 Experiments configuration

In the following experiments 100 agents were used, all markets (Asset/Cash, Bond/Cash, Asset/Bond) were enabled, a bond with face-value of 0.5 was selected and the number of replications run was 50. A replication was terminated after 1000 failed matching-rounds in a row. Note that if trading is not possible any more before 1000 failed matching-rounds have been reached in a row, the simulation is terminated too and thus it is possible that it halts earlier as can be seen for the Ascending-Connected Importance Sampling topology.

[BSV13] showed that equilibrium can be reached already with 30 agents so this was the minimum number of agents to start with but for a smoother visual result 100 were chosen. Also one simulation-run takes not very much time with 100 as compared to the 1000 agents thus it is a very good match between visual accurateness and processing-power requirements.

The 0.5 bond was selected because it is a risky one which is important as with risk-less loans which have a face-value less than 0.2 the results are indifferent and not unique and won't show the characteristic distribution of equilibrium.

As already described in section 5.6.1 "Sweeping and Matching" the whole simulation-process is a random-process with an equilibrium different for each topology as the fixed-point solution thus one needs replications to reduce noise. The number of 50 replications was chosen because it is a good match between processing-power requirements and overall reduction of noise. Thus increasing the number e.g. to 100 or 200 would not result in much better results - both visual and numerical - but would need much longer to run. All facts can already be seen and derived when using 50 replications thus for all figures 50 replications were used unless stated otherwise e.g. a single run.

Table 7: Configuration for all experiments

Agent-Count	100
Bond-Type	0.5
Replication-Count	50
Matching-Round	max. 500 offering-rounds
Terminate after	1000 failed successive matching-rounds

Table 8: Theoretical Equilibrium for 100 agents and 0.5 bond

Asset-Price p	0.717
Bond-Price q	0.375
Marginal agent i1	0.584
Marginal agent i2	0.802

### 6.3 Fully-Connected

This topology serves as the major point-of-reference for the other experiments as it reaches the theoretical equilibrium for 1000 agents as demonstrated and explained.

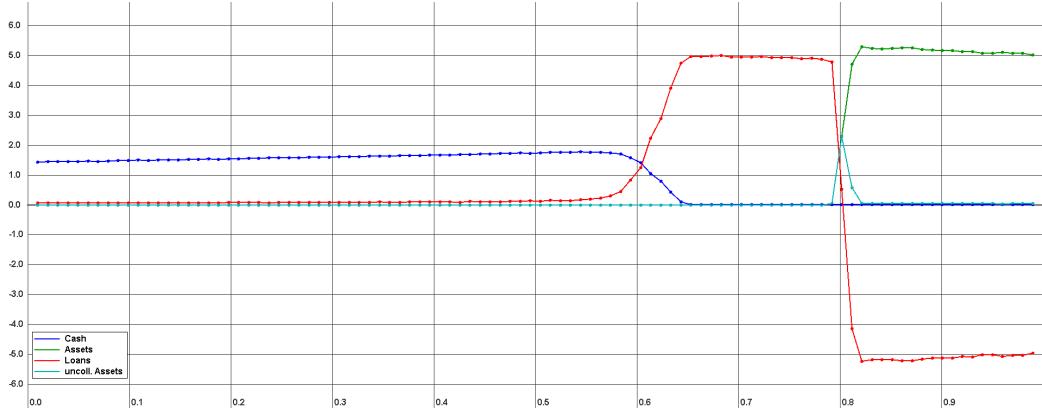


Figure 2: Wealth-distribution of Fully-Connected topology

Table 9: Equilibrium of Fully-Connected topology

Asset-Price p	0.689 (0.01)
Bond-Price q	0.384 (0.004)
Marginal agent i1	0.603 (0.007)
Marginal agent i2	0.803 (0.003)
Pessimist Wealth	1.597 (0.015)
Medianist Wealth	4.565 (0.113)
Optimist Wealth	5.021 (0.064)

Table 10: Performance of Fully-Connected topology

Successful matching-rounds	1916.14 (31.42)
Failed matching-rounds	4448.66 (1668.93)
Total matching-rounds	6364.8 (1679.21)
Ratio successful/total	0.3
Ratio failed/total	0.7

Table 11: Difference to theoretical equilibrium

	Result	Reference	difference to Reference
Asset-Price p	0.689	0.717	-3.9%
Bond-Price q	0.384	0.375	+2.4%
Marginal agent i1	0.603	0.584	+3.2%
Marginal agent i2	0.803	0.802	+0.1%

## 6.4 Ascending-Connected topology

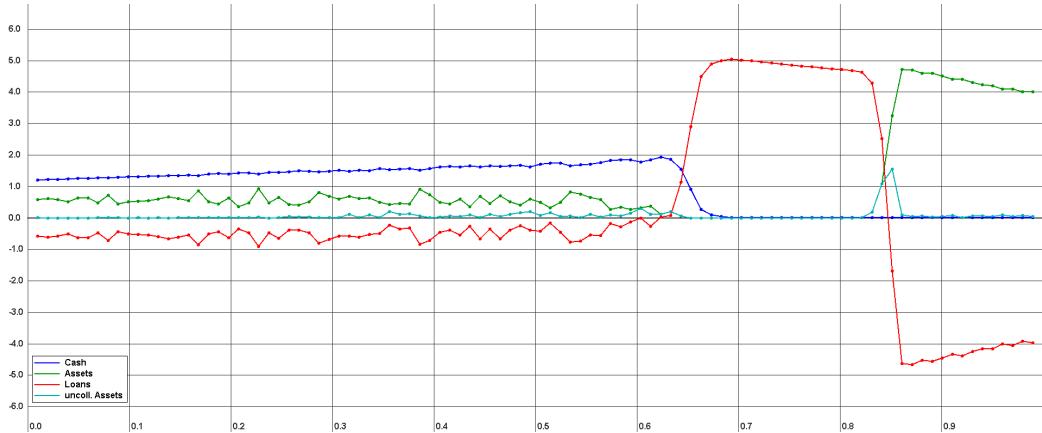


Figure 3: Wealth-distribution of Ascending-Connected topology

Table 12: Equilibrium of Ascending-Connected topology

Asset-Price p	0.711 (0.016)
Bond-Price q	0.391 (0.005)
Marginal agent i1	0.646 (0.012)
Marginal agent i2	0.850 (0.008)
Pessimist Wealth	1.166 (0.072)
Medianist Wealth	1.869 (0.243)
Optimist Wealth	4.307 (0.07)

Table 13: Performance of Ascending-Connected topology

Successful matching-rounds	36,940.96 (1948.69)
Failed matching-rounds	1176.08 (98.01)
Total matching-rounds	38,117.04 (1934.06)
Ratio successful/total	0.97
Ratio failed/total	0.03

Table 14: Difference to theoretical equilibrium

	Result	Reference	difference to Reference
Asset-Price p	0.711	0.717	-0.8%
Bond-Price q	0.391	0.375	+4.2%
Marginal agent i1	0.646	0.584	+10.6%
Marginal agent i2	0.850	0.802	+6.0%

Table 15: Difference to Fully-Connected topology equilibrium

	Result	Reference	difference to Reference
Asset-Price p	0.711 (0.016)	0.689 (0.01)	+3.2% (+60%)
Bond-Price q	0.391 (0.005)	0.384 (0.004)	+1.8% (+25%)
Marginal agent i1	0.646 (0.012)	0.603 (0.007)	+6.9% (+71%)
Marginal agent i2	0.850 (0.008)	0.803 (0.003)	+6.0% (+166%)
Pessimist Wealth	1.166 (0.072)	1.597 (0.015)	-27.0% (+380%)
Medianist Wealth	1.869 (0.243)	4.565 (0.113)	-59% (+115%)
Optimist Wealth	4.307 (0.070)	5.021 (0.064)	-14.2% (+9.3%)

#### 6.4.1 Ascending-Connected Importance Sampling

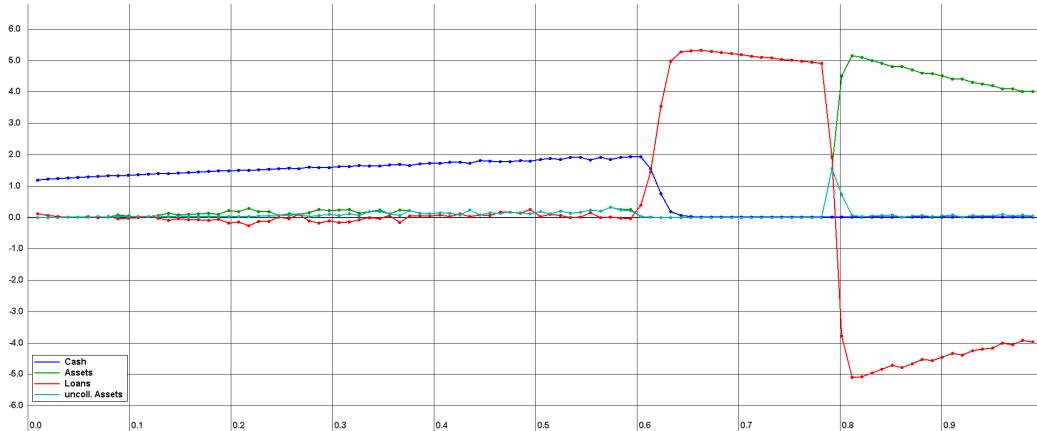


Figure 4: Wealth-distribution of Ascending-Connected Importance Sampling topology

Table 16: Equilibrium of Ascending-Connected Importance Sampling topology

Asset-Price p	0.691 (0.009)
Bond-Price q	0.383 (0.004)
Marginal agent i1	0.614 (0.009)
Marginal agent i2	0.799 (0.006)
Pessimist Wealth	1.497 (0.072)
Medianist Wealth	3.934 (0.505)
Optimist Wealth	4.519 (0.051)

Table 17: Performance of Ascending-Connected Importance Sampling topology

Successful matching-rounds	49,881.6 (1733.33)
Failed matching-rounds	1.0 (0.00)
Total matching-rounds	49,882.6 (1733.33)
Ratio successful/total	0.9999
Ratio failed/total	0.0001

Note that in this case the matching-probabilities are such that upon the first failed matching-round the equilibrium is reached as no agent can trade with each other any more which results in just one single failed matching-round.

Table 18: Difference to theoretical equilibrium

	Result	Reference	difference to Reference
Asset-Price p	0.691	0.717	-3.6%
Bond-Price q	0.383	0.375	+2.1%
Marginal agent i1	0.614	0.584	5.1%
Marginal agent i2	0.799	0.802	-0.4%

Table 19: Difference to Fully-Connected topology equilibrium

	Result	Reference	difference to Reference
Asset-Price p	0.691 (0.009)	0.689 (0.01)	+0.3% (-10%)
Bond-Price q	0.383 (0.004)	0.384 (0.004)	-0.3% (0.0%)
Marginal agent i1	0.614 (0.009)	0.603 (0.007)	+1.8% (28.6%)
Marginal agent i2	0.799 (0.006)	0.803 (0.003)	-0.5% (+100%)
Pessimist Wealth	1.497 (0.072)	1.597 (0.015)	-6.2% (+380%)
Medianist Wealth	3.934 (0.505)	4.565 (0.113)	-13.8% (+346%)
Optimist Wealth	4.519 (0.051)	5.021 (0.064)	-10% (-20.3%)

# **Chapter 7**

## **Interpretation**

In this chapter the interpretation of the results of Chapter 6 "Results" are given and discussed where the central question is whether the Ascending-Connected topology satisfies the hypothesis or not. Thus only this topology is handled - both with and without importance sampling - because it is the most minimal network which satisfies the requirements for the hypothesis. The interpretations for the results of Hub-, Scale-Free and Small-World Topologies are handled in appendix B "Results for Hub-Based, Scale-Free and Small-World" but only to a minimal extent as they turn out to fall far from satisfying the hypothesis and the equilibrium because almost all of them do not meet the requirements.

### **7.1 Validating the Hypothesis**

When comparing the results of Ascending-Connected topology with and without importance sampling from Chapter 6 "Results" of figure 4 and 3 with the results of the Fully-Connected topology of figure 2 it becomes immediately clear that the equilibrium is different from the one of the Fully-Connected network and thus theoretical equilibrium is not reached in the case of Ascending-Connected topology neither with or without importance sampling. Although the visual results come quite close to the Fully-Connected one - there is a clear distinction between pessimists, medianists and optimists and the wealth-distribution looks about the same as in fully-connected - there remain serious artefacts in the range of the pessimists. Thus the hypothesis is proven wrong by experiment.

## 7.2 Analysing artefacts

Obviously the artefacts in the range of the pessimists indicate a miss-allocation of wealth, which are in fact collateralized assets. Pessimists, as noted in Chapter ?? "The Leverage Cycle", are maximally short on assets and bonds and hold only cash, thus it is clearly a miss-allocation. As will be shown it comes from the fact that the pessimists want to sell but no neighbour is able to buy any more - a scenario which is not possible in Fully-Connected topology and is thus unique to Ascending-Connected networks with and without importance sampling.

### 7.2.1 Dynamics of a single run

To better understand how such artefacts arise one needs to investigate the dynamics of a single run of the Ascending-Connected topology. The tools used are both the market-activity and wealth-distribution diagrams where the former one shows during which points in time - which are the successful matching-rounds - of the simulation each market is active. Being active means a successful match on a given market which implies that in a successful matching-round only one market can be active as only one match on a specific market happens during a successful matching round. Because of this a moving window of size 100 is used to create a moving-average filter over all active markets where the result is normalized and all market-activity sums to 1.0 at each point in time of the diagram. This allows for a very good visual analysis of distinct trading-stages because noise is reduced but the overall trend of a market can be still clearly seen.

3 trading-stages can be identified in the market-activity diagram of Ascending-Connected topology.

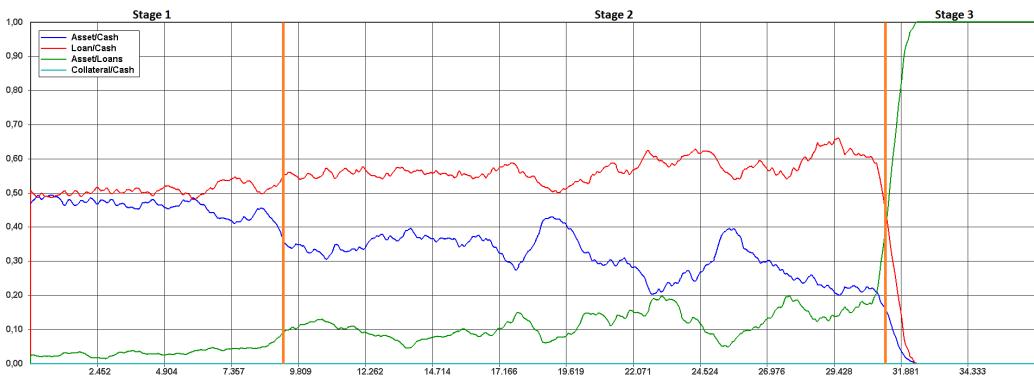


Figure 5: Market-activity stages of Ascending-Connected topology

**Stage 1** The allocations are very chaotic overall but pessimists can be identified already as they sell their free assets against cash thus holding primarily cash but lots of collateralized assets are in the pessimists-range as well. Real distinction of optimists is not yet visible and medianists are far from showing up.

The asset/cash and loan/cash markets are very dominant in this stage as the pessimists try to get cash for their free assets where the asset/loan market is hardly active but contributes enough to create the miss-allocation of the collateralized assets in the pessimists-range already.

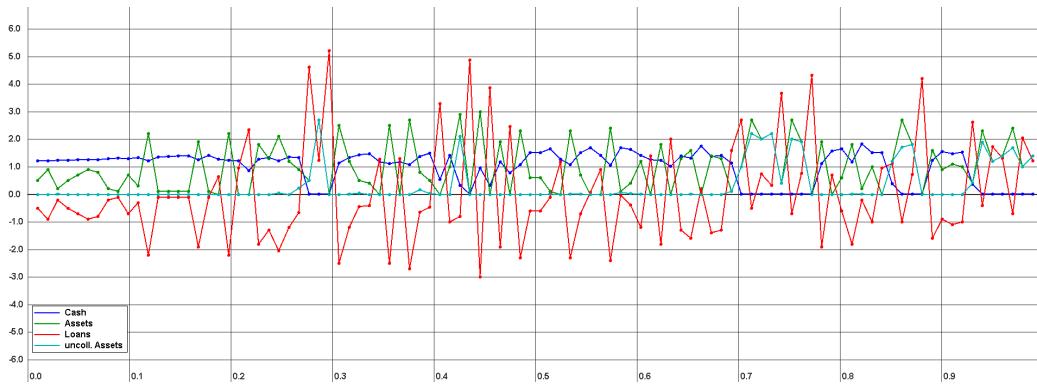


Figure 6: Wealth-Distribution of Ascending-Connected topology during Stage 1

**Stage 2** The pessimists which hold collateralized assets try to trade them up to the optimists which looks like waves when visualizing it in the thesis-software. The optimists are now about to emerge as most of them are maximally short on cash and hold either free or collateralized assets. The medianists are still not visible yet.

The asset/cash market seems to go down in the long term while the loan/cash and asset/loan markets seems to increase as fewer and fewer assets can be traded against cash and the optimists are already very low on cash thus the asset/loan market is naturally increasing as they can trade only on this market any more.

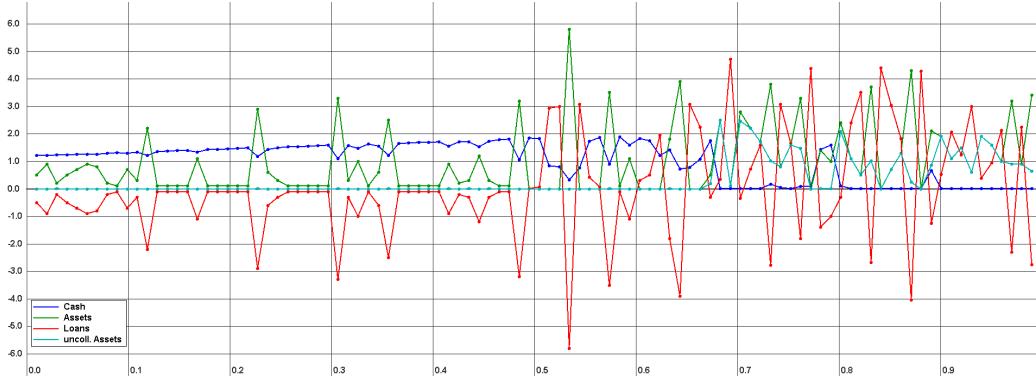


Figure 7: Wealth-Distribution of Ascending-Connected topology during Stage 2

**Stage 3** The pessimists lie dormant and are completely inactive. The medianists begin to show up holding only bonds and the real optimists begin to crystallize holding only collateralized assets. These two frontiers move towards each other as only collateralized assets can be traded any more as both medianists and optimists hold only collateralized assets and bonds.

The asset/cash market lies dormant because the pessimists are no more able to trade and the optimists are maximally low on cash. The loan/cash market is inactive too whereas the asset/loan market takes over and dominates 100% as only collateralized assets are traded any more as stated above.

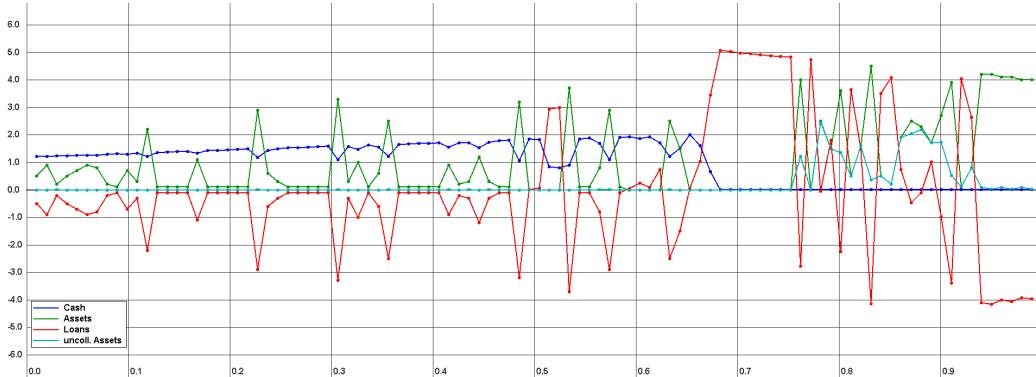


Figure 8: Wealth-Distribution of Ascending-Connected topology during Stage 3

**Deriving the emerging of the artefacts** The wealth stabilizes from both the left and the right end of the optimism-scale towards the i2-point

where medianists become optimists - around this point the last trades will happen.

Pessimists try to sell all their assets against cash to the neighbour with higher optimism-factor.

Optimists try to buy as much assets as they can get from the neighbour with lower optimism-factor. In the beginning they use cash and after they've run out of cash they buy assets against bonds.

The medianists serve as connection between the pessimists and optimists transferring the assets to the optimists by buying from agents with lower optimism and selling to higher ones either through asset against cash or asset against bond.

Thus the assets move from the pessimists through the ascending chain of optimism to the optimists as no direct connection between these two groups exists with the medianists in between. Thus waves of uncollateralized assets can be seen moving from pessimists to optimists.

It is important to understand that all agents despite their optimism factor make offers on all markets if they are able to and their cash, collateral or bond constraints are satisfied. This implies that pessimists trade bonds as well as assets against bonds although they turn out to be pessimists. Note that the agents are not defined exogenous as pessimists/medianist/optimists but this property emerges during the simulation.

Thus pessimists gain wealth in collateralized assets too which can be seen by the green spikes with the same amount of negative bonds as those assets are bought against bond. Of course they try to sell it to neighbours with higher optimism factor but this is only possible if these neighbours are able to buy which they can only if they hold enough positive bonds to buy the offered asset for the offered amount of bonds.

Whether an agent has enough wealth to buy from a seller is more or less random and depends on its trading history. Matching happens randomly and thus it is possible that the neighbourhood of a seller "dries up" as the potential buyers sold all their goods to the next agent with higher optimism factor and become thus unable to buy from the potential seller because they have no more positive bonds to buy assets against bonds. In such a case a potential pessimist seller of collateralized assets is then cut from its environment and becomes unable to trade any more resulting in a miss-allocation in collateralized assets.

It is also possible for a group of agents to get cut from its environment through this random trading-process. In this case the agents within this

"island" still trade between each other resulting in the uncollateralizing of assets which immediately are traded towards optimists but as soon as a point is reached where no buyer is available with enough bonds to buy collateralized assets this island is also incapable of trading any more resulting in an island of miss-allocated wealth.

An important fact to notice is that the artefacts must not necessarily show up. It is possible for a single run to finish without these artefacts showing up. This is due to the random-process of sweeping and matching and thus the artefacts are subject to this random process too as noted in section 5.7 "Sweeping and Matching". Importance sampling elevates this problem a bit as it allows for more trades as the matching probabilities are very much increased but fails in the end for the same reason as the simulation without it - the artefacts are just "smaller" but show up almost always.

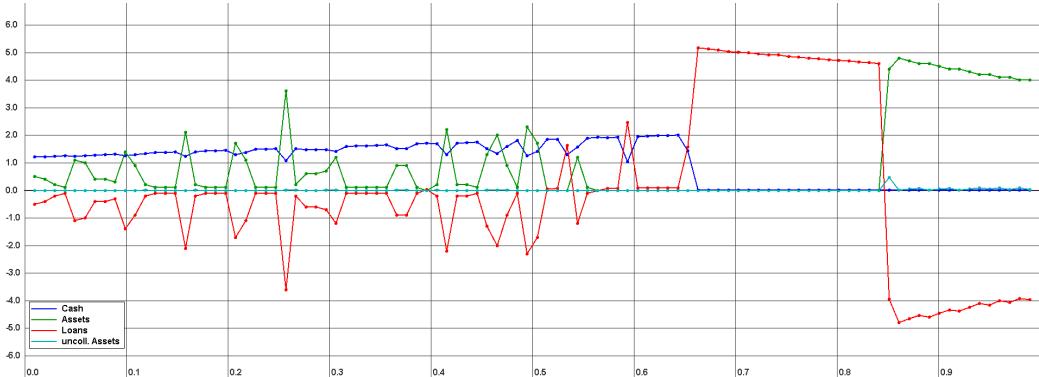


Figure 9: Final wealth-distribution of Ascending-Connected topology after a single run

## 7.3 Extending the Hypothesis

After it has become clear that the hypothesis is wrong the question arises what needs to be done to correct it. It is clear that a mechanism needs to be found which prevents or resolves the arising of the artefacts within the pessimist wealth-range. Obviously two solutions are available.

### 7.3.1 Approaching fully connectedness

Increasing the connectedness of the topology increases the probability of global-optimal trades and allows more agents to trade between each other and thus the probability of resolving islands or artefacts of wealth miss-allocation

is increased with the density of connectedness. The experiments of ascending-connected topology with short-cuts were designed to develop an understanding how the simulation behaves with increasing connectedness and also how the two types of fully- and regular-connectedness influence the results. It seems that full short-cuts seem to help dramatically in reducing the miss-allocations where the number of full short-cuts seems to be dependent on the number of agents which this thesis leaves for further research. See section B.2 "Ascending-Connected with short-cuts" in appendix B for a short overview of the results and interpretation of short-cut based Ascending-Connected topologies.

Of course in real environments approaching fully connectedness is not always possible and thus only the other mechanism is left as an option to resolve the artefacts.

### 7.3.2 Re-Enabling trading

Another way to look at the arising of the artefacts is because of suboptimal trades. [BSV13] were confronted with this circumstance when they introduced the asset/bond Market where they found that the equilibrium was fundamentally different from the theoretical one because agents were trapped in suboptimal trades and couldn't reverse their decisions made earlier. The trades were suboptimal because each agent assigns depending on its optimism factor a different bond-value to each asset. As a solution they introduced the "Bonds-Pledgeability" (BP) mechanism which allows to trade bonds in both ways instead of only gathering them and not being able to sell them - see chapter 3 "The Leverage Cycle" for a more in-depth discussion of the BP-Mechanism.

Thus if those artifacts are treated as suboptimal trades one needs to introduce a mechanism similar to BP to allow the reversibility of suboptimal trades in the context of collateralized assets. The only possibility without altering the network-topology is to re-enable the pessimists to trade their collateralized assets against cash as all pessimists hold cash and are thus able to buy and sell collateralized assets against cash. This new mechanism is expected to repair the miss-allocated wealth and to restore the validity of the previously disproved hypothesis.

See Chapter 8 "A new Market" for the implementation and results of this new mechanism.

# Chapter 8

## A new Market

As already introduced in section ?? "Re-Enabling trading" a new market is necessary to repair the miss-allocation of collateralized assets in the range of the pessimist agents by enabling the agents to trade collateralized assets against cash.

### 8.1 Definition

#### 8.1.1 Products

Collateralized assets are traded against cash. The buyer gets a specific amount of collateralized assets for a given amount of cash where the seller gives away the specific amount of collateralized assets and gets the given amount of cash.

#### 8.1.2 Price-Range

As within all other 3 Markets the price-ranges of the offers must be defined. Note that all prices must obviously be in the unit of cash.

**minimum** When calculating the minimum price of a collateralized asset - that is how much is the collateralized asset minimally worth - it is important to include the collateral-aspect of the asset. Thus one starts with the minimum asset-price in cash which is the down-price  $pD$  and subtracts the maximum possible amount of cash which is bound through a bond as collateral which is the face-value  $V$ . This value is a constant for all agents.

$$\min \text{ collateralized asset-price} = \min(0, pD - V)$$

**maximum** To calculate the maximum price of a collateralized asset - that is how much is the collateralized asset maximally worth - one needs to include the collateral-aspect of the asset too. Equal to calculating the minimum one starts now with the maximum asset-price in cash which is the up-price  $pU$  and subtracts the minimum possible amount of cash which is bound through a bond as collateral which is the face-value  $pD$ . This value is a constant for all agents.

$$\text{max collateralized asset-price} = pU - pD$$

**limit** Applying the same rules as in minimum and maximum to the limit price calculation one needs to subtract the limit-price of loans from the limit-price of asset to receive the limit-price of a collateralized asset. This value is individual for each agent as the limit-prices differ across the agents both for assets and loans.

$$\text{limit-price of collateralized asset} = \text{limit-price of asset} - \text{limit-price of loan}$$

### 8.1.3 Bid-Offering

The way bid-offers are generated is very similar to the "Bond against Cash" market. Bid Offerings are generated only when the agent has any cash holdings. The price is drawn randomly between the minimum price and the limit-price because when buying one wants to buy below the expected value to make a profit. As amount one TRADING-UNIT of an asset is selected - in the thesis-implementation 0.1 - but if there is not enough cash left to buy one TRADING-UNIT of assets then the amount of assets is selected which can be bought with the remaining cash holdings.

Table 20: Bid-Offering parameters

Pre-Condition	$\text{cash holdings} > 0$
Asset-Price	$\text{random}(\min \text{ coll. asset-price}, \text{limit-price of coll. asset})$
Asset-Amount	$\min\left(\frac{\text{cash holdings}}{\text{Asset-Price}}, \text{TRADING-UNIT}\right)$

### 8.1.4 Ask-Offering

The way ask-offers are generated is very similar to the "Bond against Cash" market. Ask Offerings are generated only when the agent has any collateralized assets. The price is drawn randomly between the limit-price and maximum price because when selling one wants to sell above the expected

value to make a profit. As amount one TRADING-UNIT of an asset is selected - in the thesis-implementation 0.1 - but if there are fewer collateralized assets left then the remaining amount of collateral is selected.

See Chapter 5 "Implementation" for the equation of collateral holdings.

Table 21: Ask-Offering parameters

Pre-Condition	<i>collateral holdings &gt; 0</i>
Asset-Price	random( <i>limit-price of coll. asset, max coll. asset-price</i> )
Asset-Amount	<i>min(collateral holdings, TRADING-UNIT)</i>

### 8.1.5 Match

Below the wealth-exchange table is given in case of a match between two agents on the new market. TODO: the wealth is increased/decreased but not assigned.

Table 22: Wealth-Exchange on match

	Seller	Buyer
Loan Given	+ matching-amount	N/A
Loans Taken	N/A	- matching-amount
Assets holdings	- matching-amount	+ matching-amount
Cash holdings	+ matching-price	- matching-price

## 8.2 Results

Of most importance are the results of the simulation when using the new market. The plain results are given in this section where the interpretation of the results are given in the following section.

As experiment-configuration the same is used as given in Chapter 6 "Results" except that the new market is now activated too.

### 8.2.1 Fully-Connected topology

Table 23: Configuration for all experiments

Agent-Count	100
Bond-Type	0.5
Replication-Count	50
Matching-Round	max. 500 offering-rounds
Terminate after	1000 failed successive matching-rounds

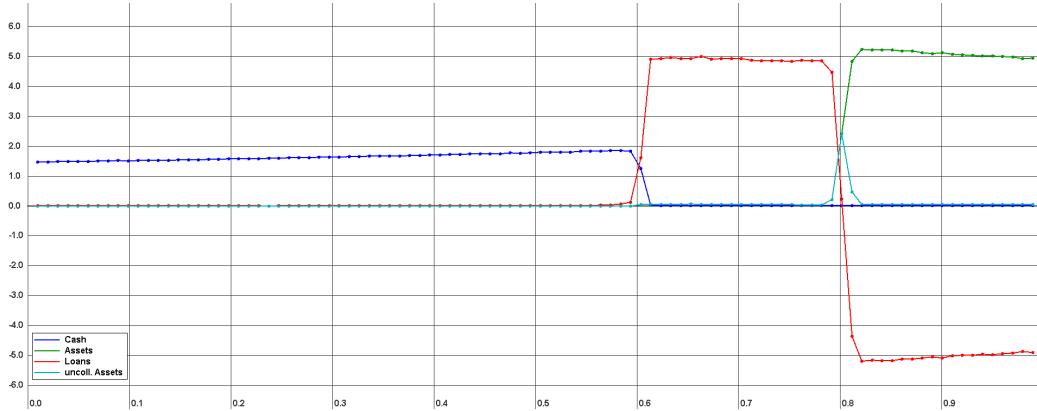


Figure 10: Wealth-Distribution of Fully-Connected topology with collateral/cash market

Table 24: Equilibrium of Fully-Connected topology with collateral/cash market

Asset-Price	0.688 (0.008)
Loan-Price	0.381 (0.002)
Marginal Buyer i0	0.597 (0.005)
Marginal Seller i1	0.803 (0.003)
Pessimist Wealth	1.597 (0.009)
Medianist Wealth	4.76 (0.1)
Optimist Wealth	4.963 (0.052)

Table 25: Performance of Fully-Connected topology with collateral/cash market

Successful matching-rounds	1916.14 (31.42)
Total matching-rounds	6364.8 (1679.21)
Failed matching-rounds	4448.66 (1668.93)

Table 26: Difference of Fully-Connected topology to theoretical equilibrium as given in Table 8 of Chapter 6 "Results"

	Result	Reference	difference to Reference
Asset-Price	0.688	0.717	-4.0%
Loan-Price	0.381	0.375	+1.6%
Marginal Buyer i0	0.597	0.584	+2.2%
Marginal Seller i1	0.802	0.803	+0.1%

Table 27: Difference of Fully-Connected topology to equilibrium without collateral/cash market as given in Table 9 of Chapter 6 "Results"

	Result	Reference	difference to Reference
Asset-Price	0.688 (0.008)	0.689 (0.01)	-0.1% (TODO%)
Loan-Price	0.381 (0.002)	0.384 (0.004)	-0.7% (TODO%)
Marginal Buyer i0	0.597 (0.005)	0.603 (0.007)	-1.0% (TODO%)
Marginal Seller i1	0.803 (0.003)	0.803 (0.003)	0.0% (TODO%)
Pessimist Wealth	1.597 (0.009)	1.597 (0.015)	0.0% (TODO%)
Medianist Wealth	4.76 (0.1)	4.565 (0.113)	+4.2% (TODO%)
Optimist Wealth	4.963 (0.052)	5.021 (0.064)	-1.1% (TODO%)

### 8.2.2 Ascending-Connected topology

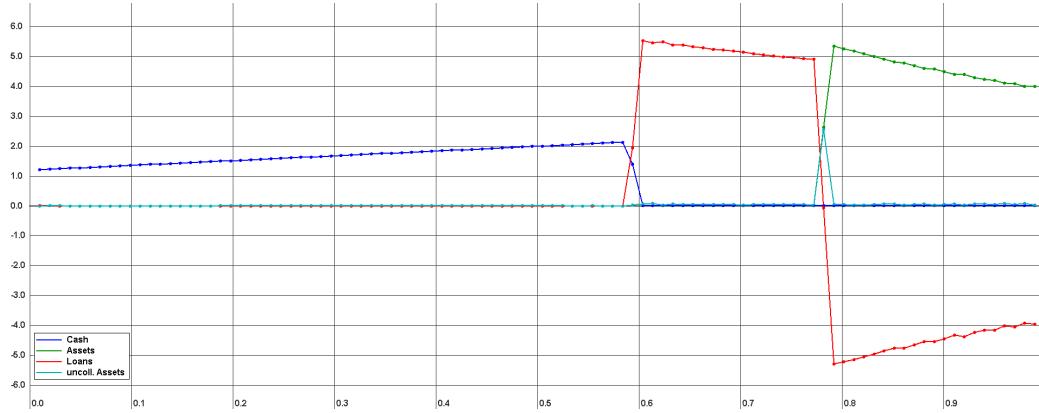


Figure 11: Wealth-Distribution of Ascending-Connected topology with collateral/cash market

Table 28: Equilibrium of Ascending-Connected topology

Asset-Price	0.713 (0.013)
Loan-Price	0.383 (0.005)
Marginal Buyer i0	0.584 (0.0)
Marginal Seller i1	0.782 (0.0)
Pessimist Wealth	1.671 (0.0)
Medianist Wealth	5.032 (0.013)
Optimist Wealth	4.508 (0.006)

Table 29: Performance of Ascending-Connected topology

Successful matching-rounds	51,838.74 (1613.36)
Total matching-rounds	52,963.5 (1612.31)
Failed matching-rounds	1124.76 (28.31)

Table 30: Difference of Ascending-Connected topology to theoretical equilibrium as given in Table 8 of Chapter 6 "Results"

	Result	Reference	difference to Reference
Asset-Price	0.713	0.717	-0.5%
Loan-Price	0.383	0.375	+2.1%
Marginal Buyer i0	0.584	0.584	0.0%
Marginal Seller i1	0.782	0.802	-2.5%

Table 31: Difference of Ascending-Connected topology to equilibrium without collateral/cash market as given in Table 12 of Chapter 6 "Results"

	Result	Reference	difference to Reference
Asset-Price	0.713 (0.013)	0.711 (0.016)	+0.3% (TODO%)
Loan-Price	0.383 (0.005)	0.391 (0.005)	-2.0% (TODO%)
Marginal Buyer i0	0.584 (0.0)	0.646 (0.012)	-9.6% (TODO%)
Marginal Seller i1	0.782 (0.0)	0.85 (0.008)	-8.0% (TODO%)
Pessimist Wealth	1.671 (0.0)	1.166 (0.072)	+43.3% (TODO%)
Medianist Wealth	5.032 (0.013)	1.869 (0.243)	+169.2% (TODO%)
Optimist Wealth	4.508 (0.006)	4.307 (0.07)	+4.6% (TODO%)

Table 32: Difference of Ascending-Connected to equilibrium of fully-connected topology with collateral/cash market as given above

	Result	Reference	difference to Reference
Asset-Price	0.713 (0.013)	0.688 (0.008)	+3.6% (TODO%)
Loan-Price	0.383 (0.005)	0.381 (0.002)	+0.5% (TODO%)
Marginal Buyer i0	0.584 (0.0)	0.597 (0.005)	-2.2% (TODO%)
Marginal Seller i1	0.782 (0.0)	0.803 (0.003)	-2.6% (TODO%)
Pessimist Wealth	1.671 (0.0)	1.597 (0.009)	+4.6% (TODO%)
Medianist Wealth	5.032 (0.013)	4.76 (0.1)	+5.7% (TODO%)
Optimist Wealth	4.508 (0.006)	4.963 (0.052)	-9.2% (TODO%)

Table 33: Difference of Ascending-Connected to equilibrium of fully-connected without collateral/cash market as given in Table 9 of Chapter 6 "Results"

	Result	Reference	difference to Reference
Asset-Price	0.713 (0.013)	0.689 (0.01)	+3.5% (TODO%)
Loan-Price	0.383 (0.005)	0.384 (0.004)	-0.3% (TODO%)
Marginal Buyer i0	0.584 (0.0)	0.603 (0.007)	-3.2% (TODO%)
Marginal Seller i1	0.782 (0.0)	0.803 (0.003)	-2.6% (TODO%)
Pessimist Wealth	1.671 (0.0)	1.597 (0.015)	+4.6% (TODO%)
Medianist Wealth	5.032 (0.013)	4.565 (0.113)	+10.23% (TODO%)
Optimist Wealth	4.508 (0.006)	5.021 (0.064)	-10.22% (TODO%)

### 8.3 Interpretation of results

Interpreting the results the following questions must be answered:

- Does the Fully-Connected topology reach the theoretical equilibrium as well?
- Does the new market repair the miss-allocation of wealth in the pessimists-range?
- If not why? If yes, does the Ascending-Connected topology approach theoretical equilibrium now?

**Does the Fully-Connected topology reach the theoretical equilibrium as well?** Yes it does. Both visual and statistical results show that it reaches the theoretical equilibrium. The medianist wealth is slightly higher with the new market but that difference, as well as the variations in the other variables are not statistically significant. TODO: genauer.

**Does the new market repair the miss-allocation of wealth in the pessimists-range?** Yes it does. The visual results are clear: no more miss-allocations show up within 50 replications.

**If yes, does the Ascending-Connected topology approach theoretical equilibrium now?** No it does not. Both visual and statistical results show that it misses to reach the theoretical and fully-connected topology with/without new market equilibrium: genauer. Clearly the visual and statistical results are different than in the case without the new market but that

was expected and is a necessity if the new market repairs the miss-allocation of wealth in the pessimists-range. TODO: genauer.

## 8.4 Simulation and Market dynamics

When implementing a new market the market-dynamics are of very importance and thus the following questions must be answered.

- Can the trading stages 1-4 be identified too as given in [? ]?
- How does trading progress with this new market? Is it the same as without the new market?
- How does the new market resolve the miss-allocation (turning on after no more possible)?
- When and how much is each market active?
- How do the market-activities change when a new market is introduced?

To answer these questions one must look closely at the market-dynamics. There are definitely trading stages but due to the new market or the different topology they are expected to be quite different from the ones found in [? ]. The method used to find these stages is through observation of a single run and refining and validating the derived facts over many additional runs. Note that replications provide no real value here as one needs to look very carefully into the dynamics of single runs instead of the mean of multiple runs.

### 8.4.1 Fully-Connected with new Market

4 Stages were identified which are quite different from the ones given in [? ].

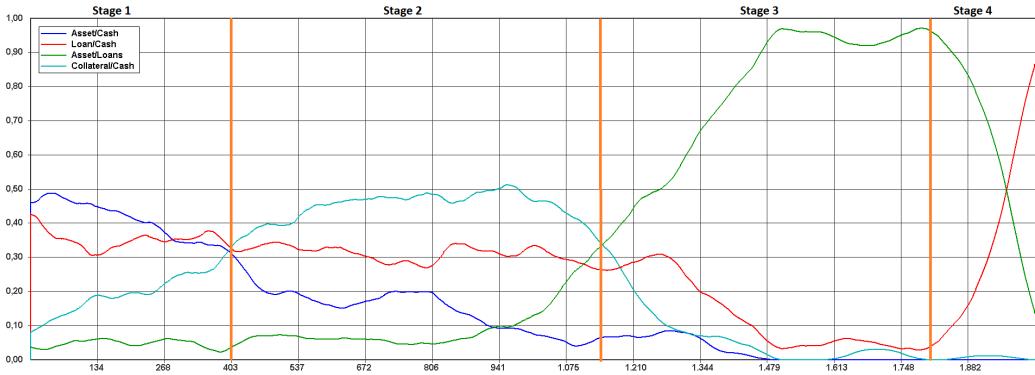


Figure 12: Market-activity stages of Fully-Connected topology with collateral/cash market

**Stage 1** In this stage the pessimists become visible rapidly as they sell their assets and increase their cash wealth. One can get also a sense of the more optimistic range of agents as they gather assets both free and collateralized. The medianists are not visible yet.

The asset/cash market dominates but goes down slowly as fewer and fewer pessimists trade assets against cash compared to the very beginning. The loan/cash market fluctuates around the same point as loans are traded more or less equally the same. The collateral/cash market begins quite low and raises as more and more collateralized assets are created by pessimists and need to be sold again using the new market. The asset/loan market is hardly active as there is no strong need for its features yet.

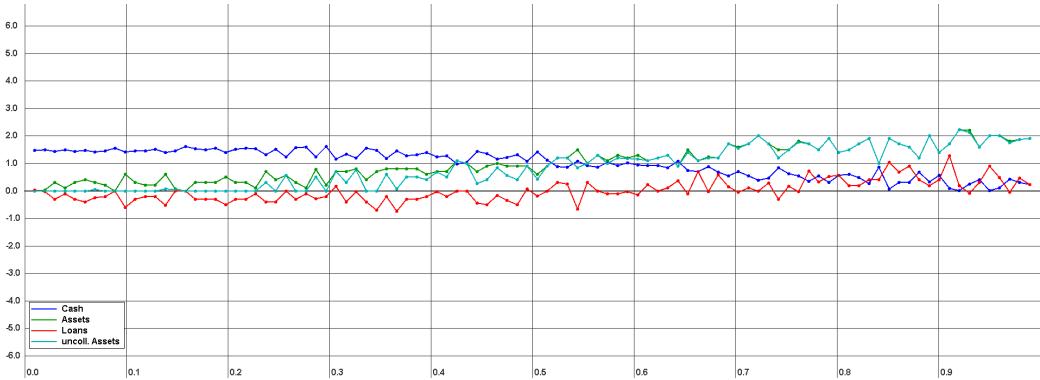


Figure 13: Wealth-Distribution of Fully-Connected topology with collateral/cash market during Stage 1

**Stage 2** The collateralized assets are traded from the pessimists towards the optimists and the optimists cristalize themselves even more but no medianists are visible yet.

The asset/cash market continues to go down as the cash holdings of the pessimists begin to decline. The loan/cash market fluctuates around the same point. Now the collateral/cash market becomes very active as more and more collateralized assets need to be traded towards the optimists. At the beginning of this Stage the asset/loan market is hardly active but raises fast towards the end of it as the optimists are out of cash and need to distribute the collateralized assets.

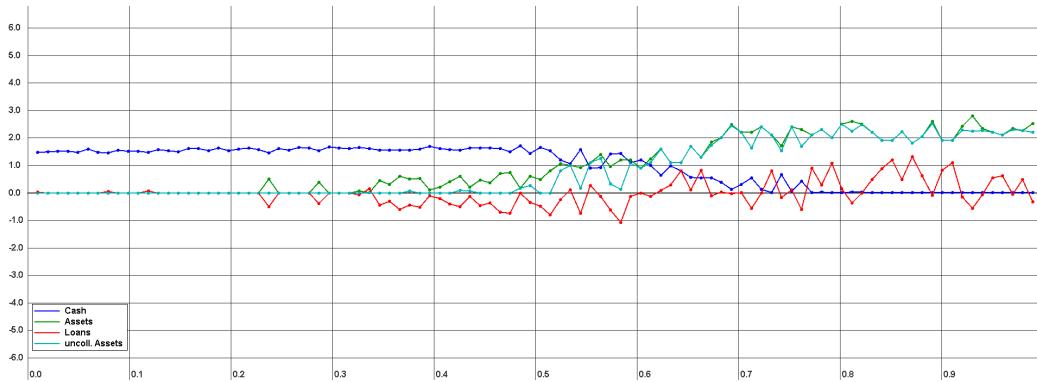


Figure 14: Wealth-Distribution of Fully-Connected topology with collateral/cash market during Stage 2

**Stage 3** The pessimists have gone inactive as they hold no more wealth they can trade. The i0-point is emerging and the medianists and pure optimists begin to show up.

Because the pessimists are inactive now and hold no more assets the asset/cash and collateral/cash markets go down and declines completely. The loan/cash market goes down but does not decline. The medianists and optimists which are emerging have no other possibility than to trade on the asset/loan market to further distribute their collateralized assets among each other which is the reason for the raise of the asset/loan market above all others and its heavy domination.

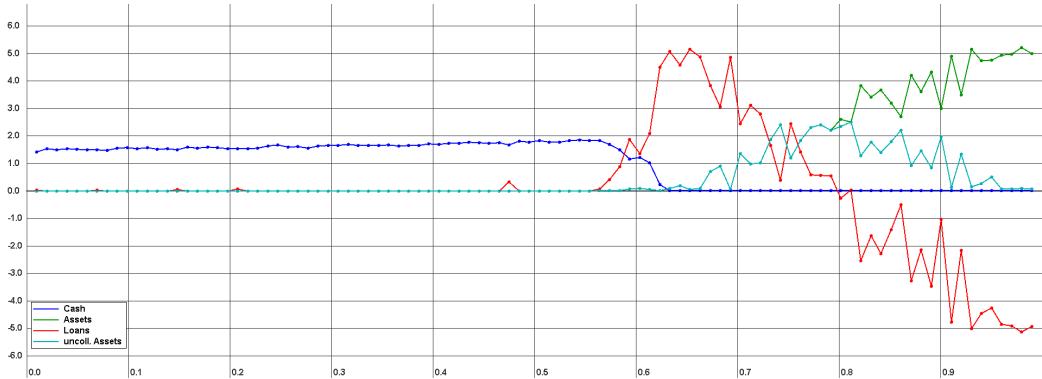


Figure 15: Wealth-Distribution of Fully-Connected topology with collateral/cash market during Stage 3

**Stage 4** Finally the i1-point has emerged and both i0 and i1 are finalizing. The only active agents remaining are around these two points where the pure optimists trade with the medianists to finalize i1 and the medianists with the next closest pessimists to finalize i0 where the very last transactions occur around i0.

The asset/loan market goes down until i1 has finalized as the collateralized asset allocation has nearly reached its equilibrium. The loan/cash market goes up as agents around i0 are still refining the point as the equilibrium of the medianists have not yet reached and thus bonds are traded against cash as i0 is the connecting point between pessimists with cash and medianists with bond which enables the loan/cash market to trade again.

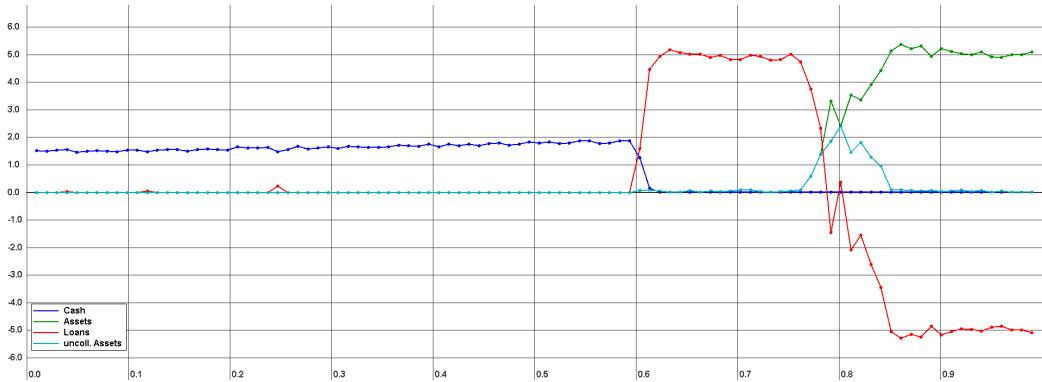


Figure 16: Wealth-Distribution of Fully-Connected topology with collateral/cash market during Stage 4

### 8.4.2 Ascending-Connected with new Market enabled after 1000 successive failed Transactions

Using the thesis-software it is possible to start a simulation-run on ascending-connected topology without the collateral/cash market and enabling it after 1000 successive failed transactions which gives interesting hints about how the spikes of collateralized assets in the pessimists-range are resolved and distributed over the already existing pure optimists.

Of course there are the same 3 Stages to be found as described already in section 7.2.1 "Dynamics of a single run" whereas the deferred enabling of the collateral/cash market adds 2 new Stages.



Figure 17: Market-activity stages of Ascending-Connected topology with deferred activated collateral/cash market

**Stage 4** The collateralized assets are traded against cash and sum up at the i0-point where the first agent has no more cash.

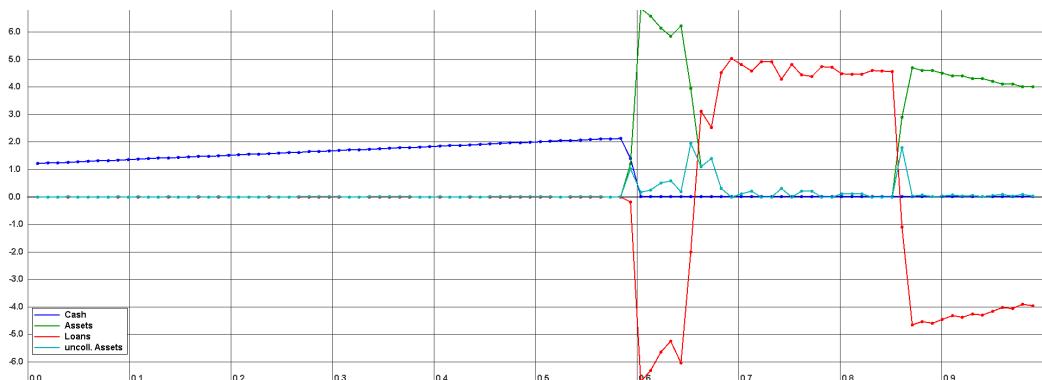


Figure 18: Wealth-Distribution of Ascending-Connected topology with deferred activated collateral/cash market during Stage 4

**Stage 5** Now the asset/loan market becomes 100% dominant again and the collateralized assets are traded through the medianists towards the pure optimists as they have no more cash and can only trade anymore on this remaining active market.

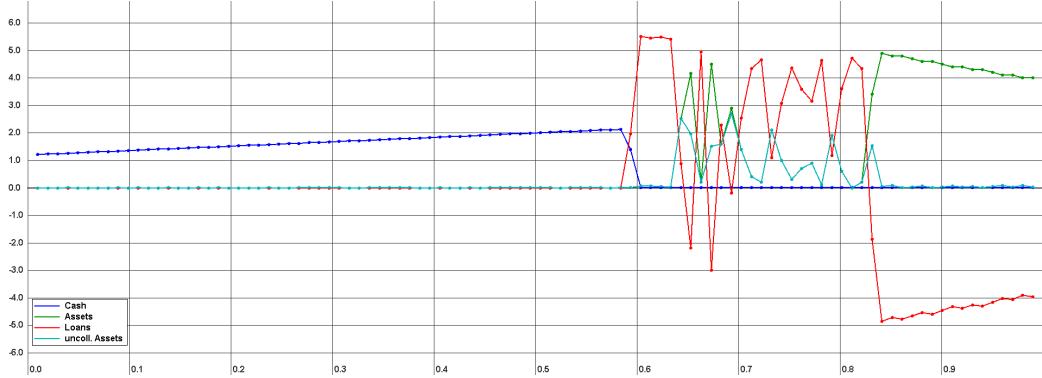


Figure 19: Wealth-Distribution of Ascending-Connected topology with deferred activated collateral/cash market during Stage 5

### 8.4.3 Ascending-Connected with new Market

4 Stages were identified where only 3 of them can be seen in the Market-Dynamics diagram.

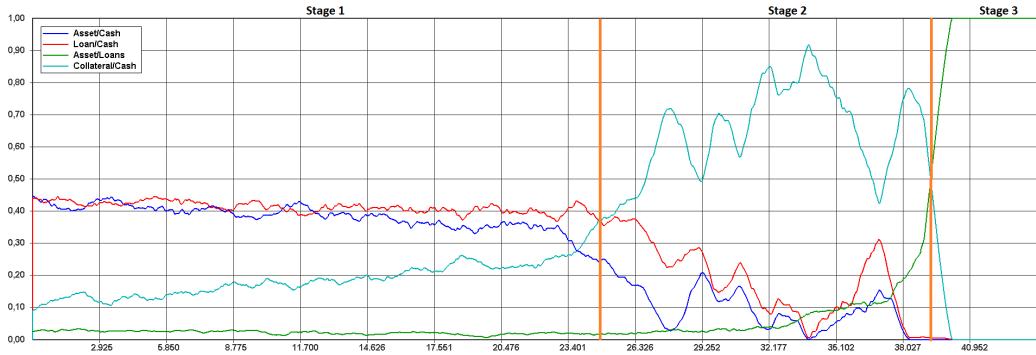


Figure 20: Market-activity stages of Ascending-Connected topology with collateral/cash market

**Stage 1** Pessimists and optimists begin to emerge where the pessimists are gathering cash and collateralized assets and the optimists are gathering free assets against cash and a few collateralized assets. There are no medianists visible yet.

The asset/cash market and loan/cash market start around 40% slightly decreasing where the collateral/cash market starts around 10% with increasing tendency. The asset/loan market is makes 2% of the total activity. It is clear to see that the collateral/cash market is increasing as the amount of collateralized assets which moves towards the optimists increases.

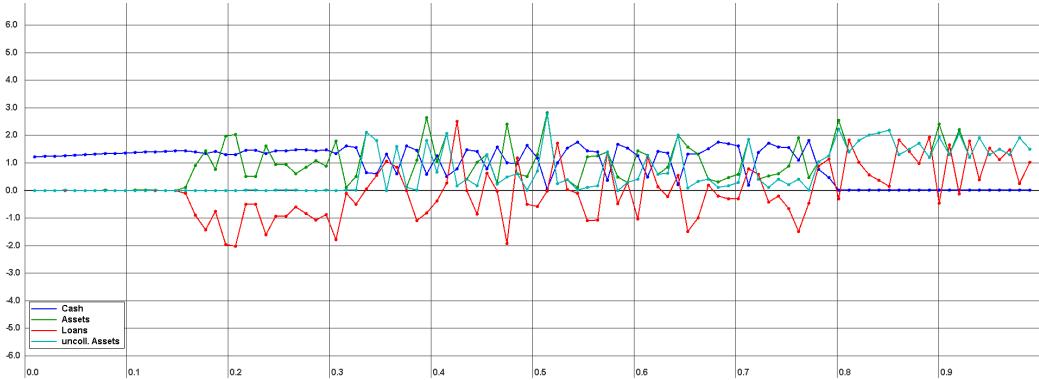


Figure 21: Wealth-Distribution of Ascending-Connected topology with collateral/cash market during Stage 1

**Stage 2** In the pessimist-range large amount of collateralized assets have gathered which are traded now towards the optimists as the pessimists try to get maximally short on any assets and maximally plus on cash. Those collateralized assets are traded towards the i0-point - that is the first agent who holds no more cash - which can be seen by a spike in the wealth-distribution of figure 22 around 0.65. There are no medianists visible yet.

The collateral/cash market raises above the asset/cash and loan/cash markets and either fluctuates or stays quite constant. In figure 20 the fluctuating variant is shown. If the market fluctuates the asset/cash and loan/cash fluctuate inverse in that if collateral/cash market raises they go down and vice versa. If the collateral/cash market stays quite constant in this stage it raises above 90% and asset/cash and loan/cash markets decline to 0%. Why the collateral/cash market either fluctuates or stays constant is not clear but is most probably dependent on the allocation of collateralized assets in the pessimists-range. The asset/loan market becomes a bit more active as more collateralized assets are traded.

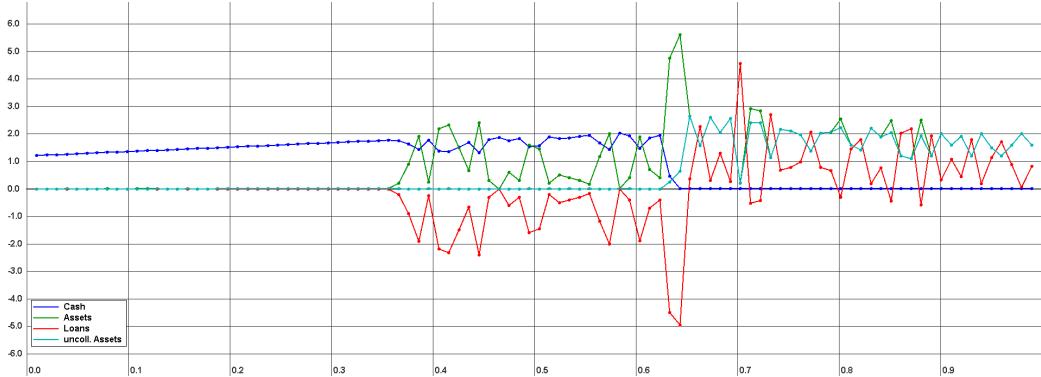


Figure 22: Wealth-Distribution of Ascending-Connected topology with collateral/cash market during Stage 2

**Stage 3** Pessimists are now final and won't change any more. Optimists-range is now clearly visible and holds a large amount of collateralized assets from the pessimists which needs now to be traded and distributed to the remaining optimists. Medianists are still not visible yet.

Because the pessimists are no more able to trade and the optimists hold no more cash the activity of the collateral/cash market drops rapidly and asset/loan market raises to 100% activity as only collateralized-assets are tradeable any more.

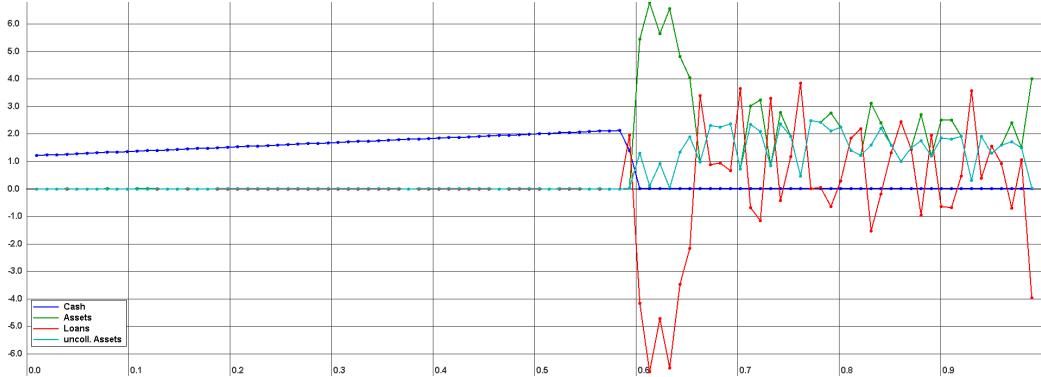


Figure 23: Wealth-Distribution of Ascending-Connected topology with collateral/cash market during Stage 3

**Stage 4** Medianists begin to show up and to distinguish themselves from the pure optimists. This is no more visible on the market-dynamics as only asset/bonds are traded anymore.

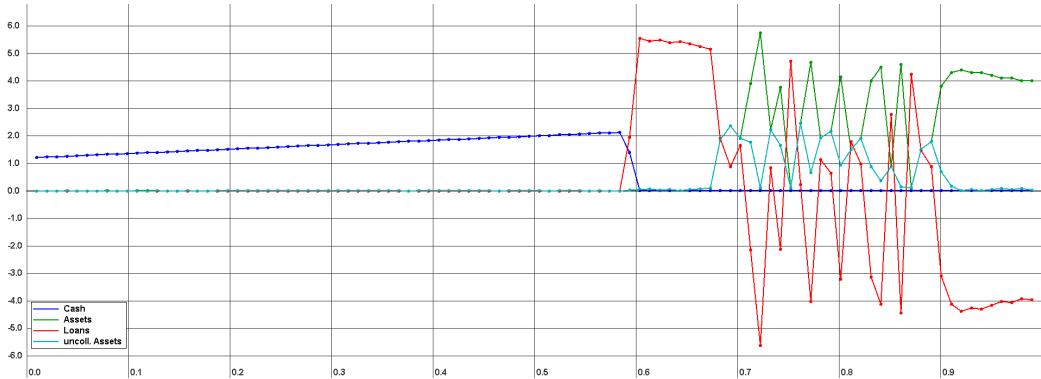


Figure 24: Wealth-Distribution of Ascending-Connected topology with collateral/cash market during Stage 4

After these observations made on can answer the questions.

**Can the trading stages 1-4 be identified too as given in [? ]?**

**How does trading progress with this new market? Is it the same as without the new market?**

**How does the new market resolve the miss-allocation (with and without deferred activation)?**

**When and how much is each market active?**

**How do the market-activities change when a new market is introduced?**

## 8.5 Conclusions on new Market

The equilibrium of the ascending-connected topology with the new market is different than the fully-connected one which reaches the theoretical equilibrium. Thus the hypothesis is still wrong because it predicted the ascending-connected topology to reach the theoretical equilibrium. This thesis can only speculate on the real reason for this but the reason is most probably rooted in the fundamental different trading dynamics of ascending-connected topology compared to fully-connected as can be seen in the market-dynamics. This thesis leaves this question open for further research.

# **Chapter 9**

## **Conclusion, Summary and further Research**

### **9.1 Conclusion**

### **9.2 Summary**

### **9.3 Further Research**

#### **9.3.1 In-depth analysis of market-activities**

je nach markt-aktivität kommt sicher ein anderes gleichgewicht heraus bzw. ist das so? hier bedarf es sicher weiterer forschungen und ist sicher auch ein ergiebiges und interessantes thema.

#### **9.3.2 Imporance-Sampling**

importance-sampling allgemein

#### **9.3.3 Experiments with real subjects**

experimentelle simulationen mit echten menschen: einschränken der handelsbeziehungen wie lokal bzw. global muss die vernetzung sein (ascending-connected full shortcuts)

#### **9.3.4 Mathematical proof of hypothesis**

beweisbarkeit der ascending-connected (MIT/OHNE neuem Markt)

### **9.3.5 Equilibrium definition for continuous double-auction process**

# Appendix A

## Topologies

TODO: description of all topologies: h-distribution

All topologies are demonstrated with 30 Agents only for better visibility and übersicht of edges. All topologies have connected-component of 1 (TODO: warum) except Erdos-Renyi can produce connected-component  $\neq 1$ .

## A.1 Fully-Connected

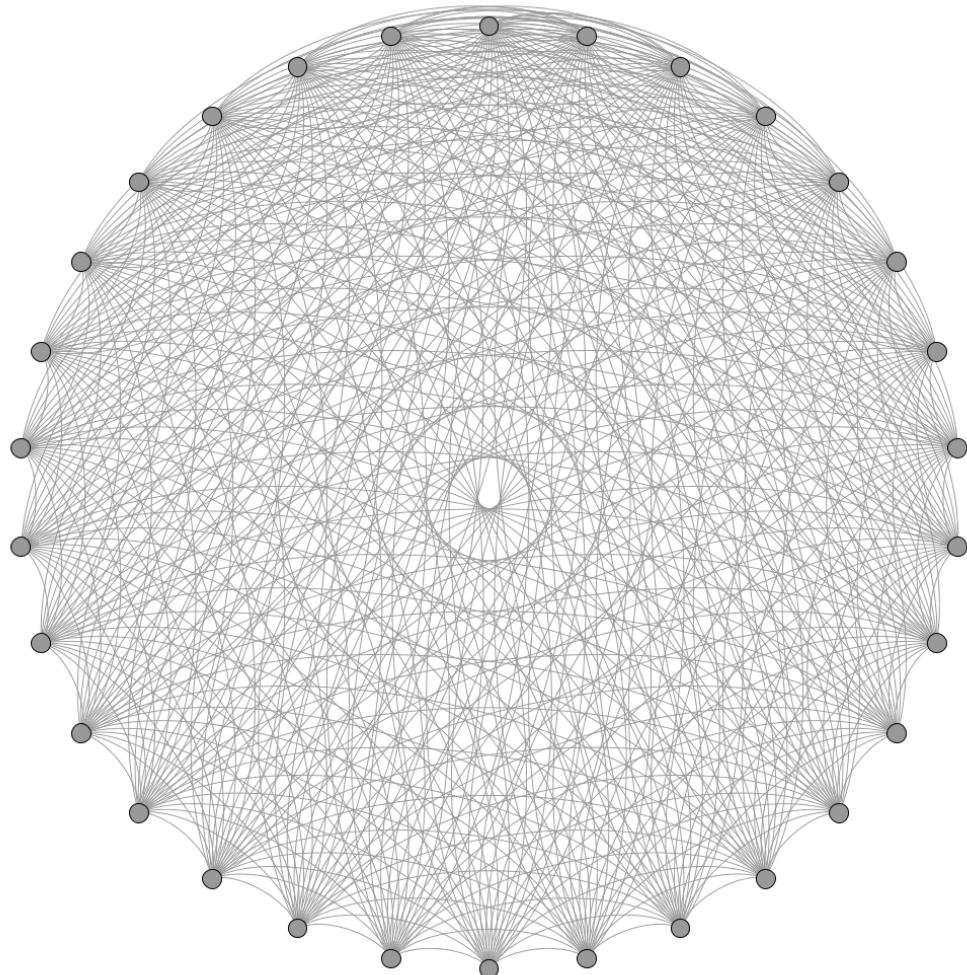


Figure 25: Fully-Connected topology

Table 34: Network metrics Fully-Connected topology

Avg. degree	29
Avg. path-length	1
Avg. clustering coefficient	1
Network diameter	1
Graph density	1

## A.2 Half-Fully Connected

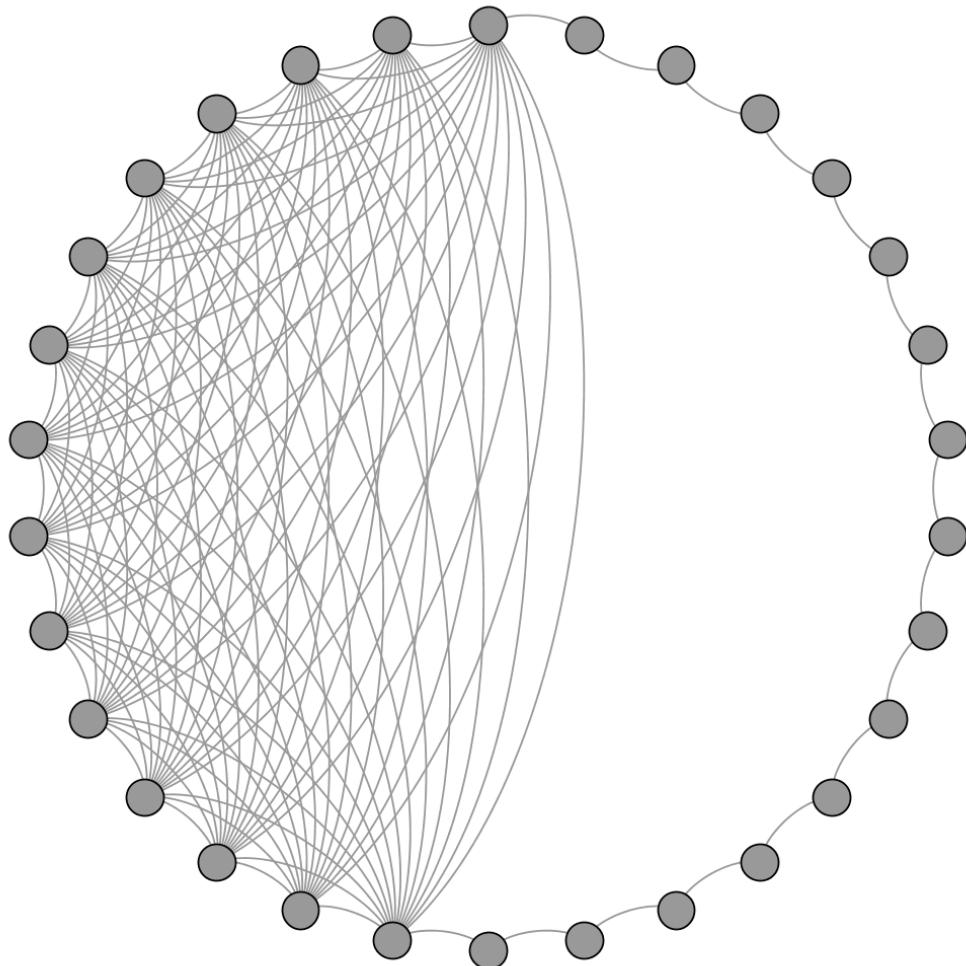


Figure 26: Half Fully-Connected topology

Table 35: Network metrics Half Fully-Connected topology

Avg. degree	8.067
Avg. path-length	4.007
Avg. clustering coefficient	0.491
Network diameter	9
Graph density	0.278

### A.3 Ascending-Connected

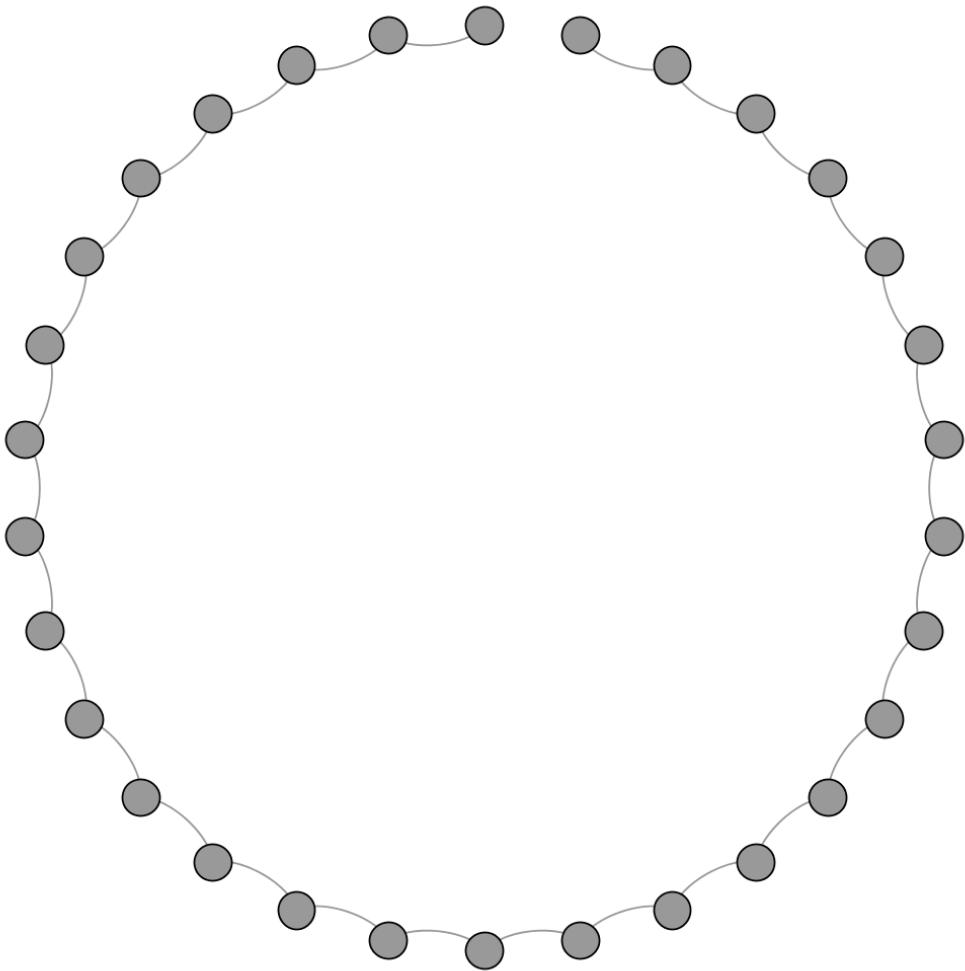


Figure 27: Ascending-Connected topology

Table 36: Network metrics Ascending-Connected topology

Avg. degree	1.933
Avg. path-length	10.33
Avg. clustering coefficient	0
Network diameter	29
Graph density	0.067

## A.4 Ascending-Connected with short-cuts

### A.4.1 Full short-cuts

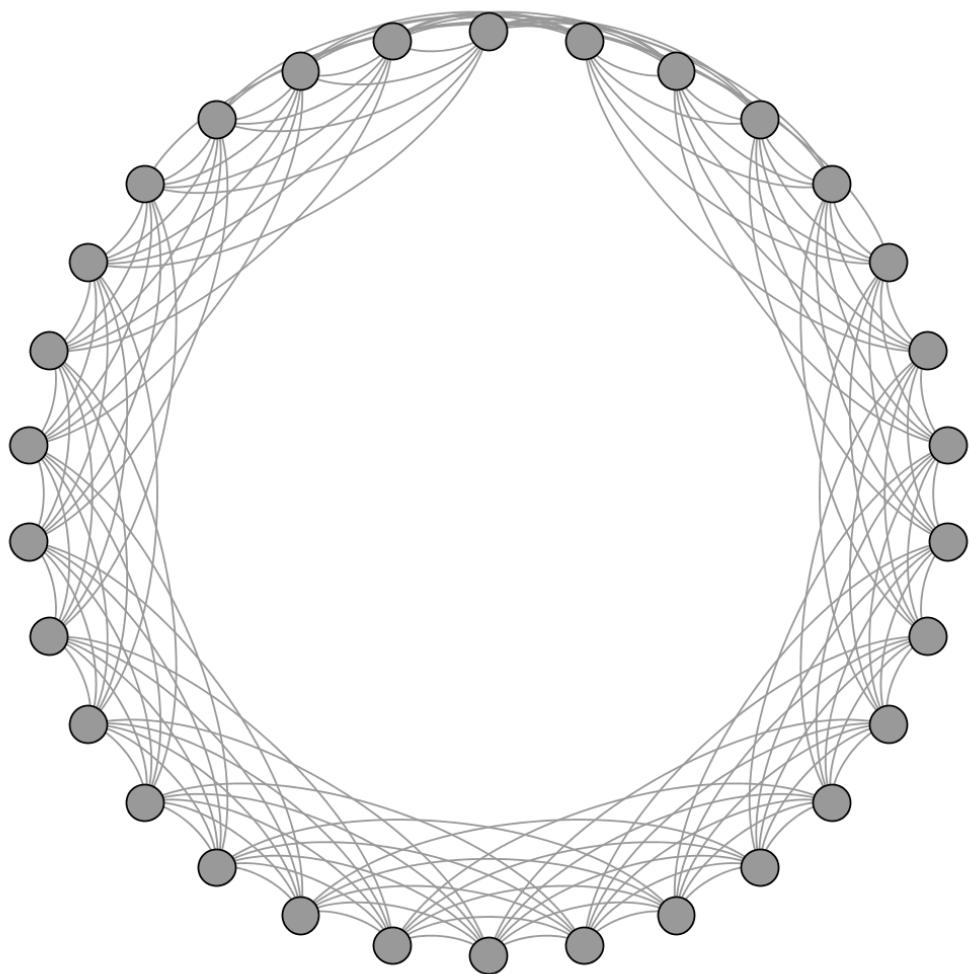


Figure 28: Ascending-Connected 5 full short-cuts topology

Table 37: Network metrics Ascending-Connected 5 full short-cuts topology

Avg. degree	10
Avg. path-length	1.966
Avg. clustering coefficient	0.667
Network diameter	3
Graph density	0.345

#### A.4.2 Regular short-cuts

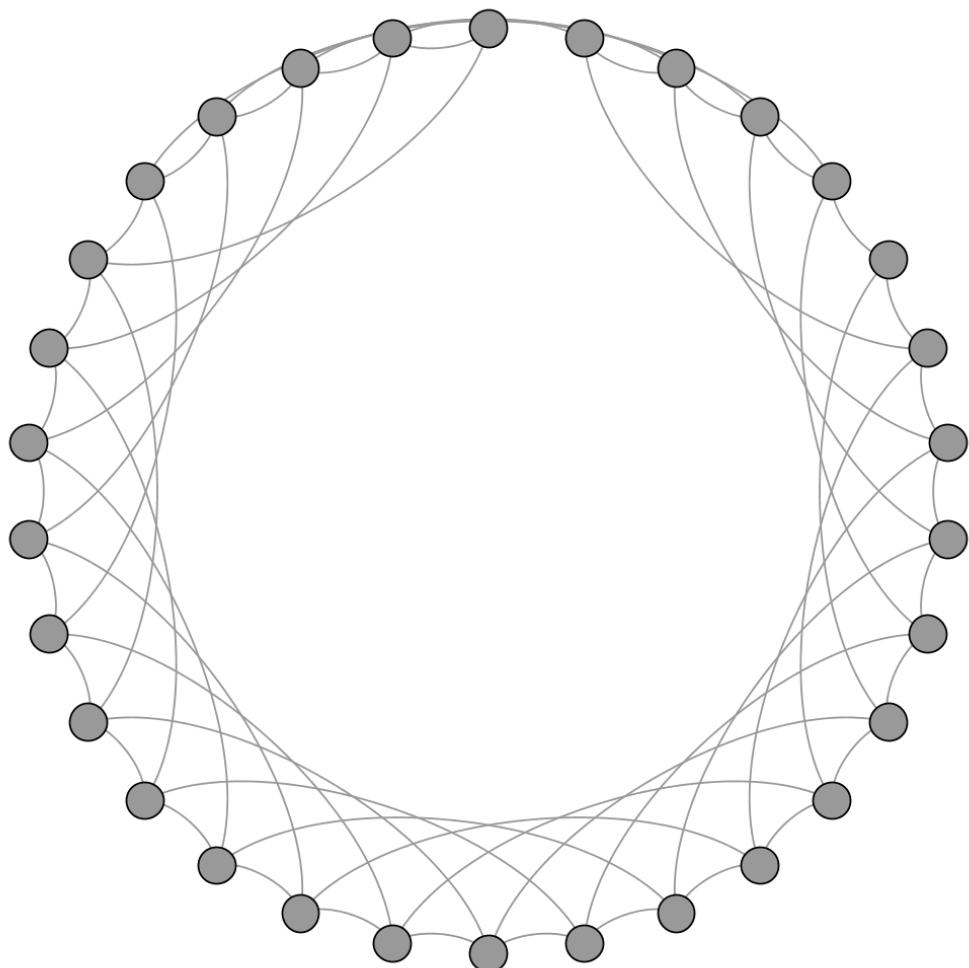


Figure 29: Ascending-Connected 5 regular short-cuts topology

Table 38: Network metrics Ascending-Connected 5 regular short-cuts topology

Avg. degree	3.867
Avg. path-length	2.839
Avg. clustering coefficient	0
Network diameter	6
Graph density	0.133

#### A.4.3 Random short-cuts

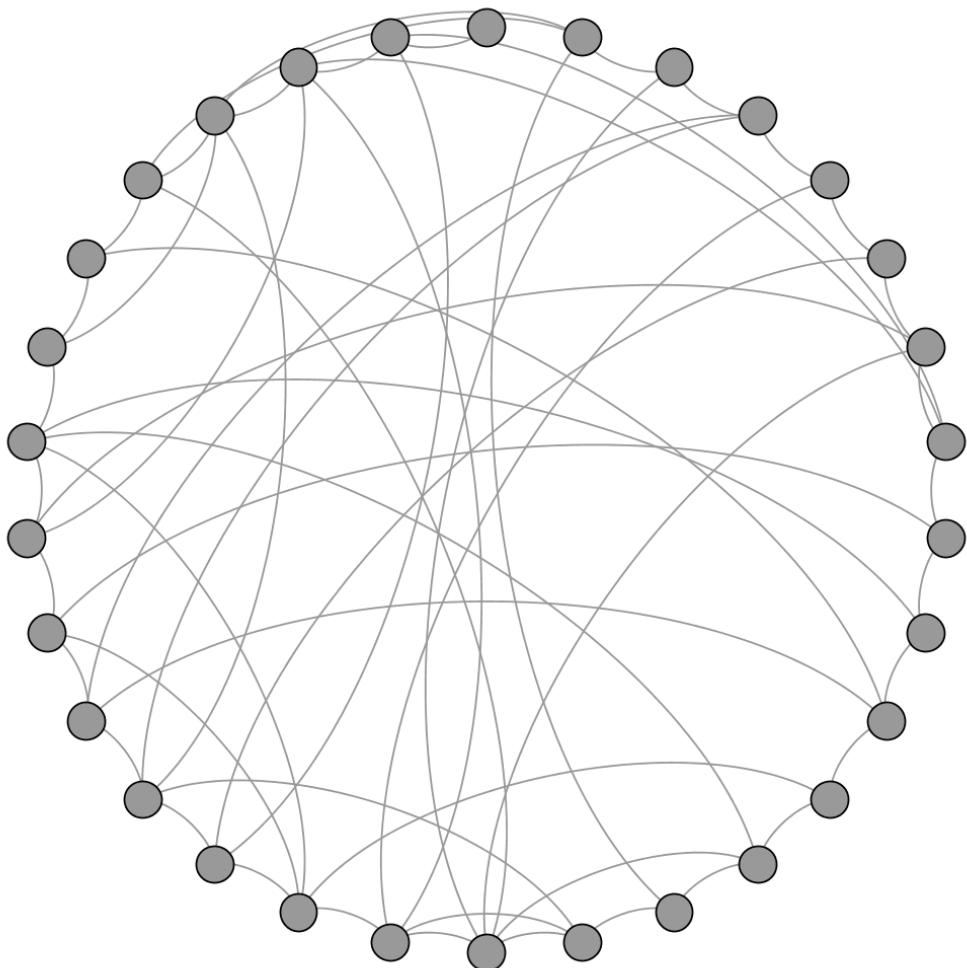


Figure 30: Ascending-Connected random short-cuts probability 1.0 topology

Table 39: Network metrics Ascending-Connected random short-cuts topology

Avg. degree	3.867
Avg. path-length	2.506
Avg. clustering coefficient	0.056
Network diameter	5
Graph density	0.133

## A.5 Hub-based topologies

### A.5.1 3 Hubs

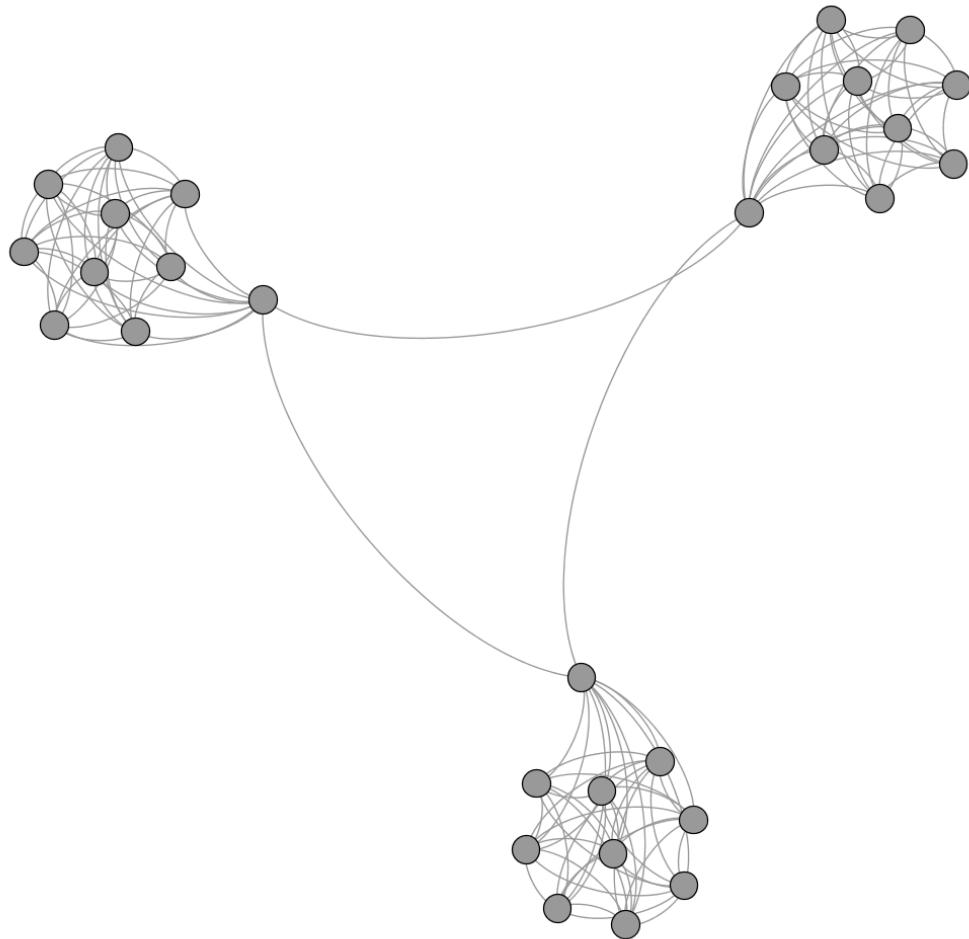


Figure 31: 3 Hubs topology

Table 40: Network metrics 3 Hubs topology

Avg. degree	9.2
Avg. path-length	2.241
Avg. clustering coefficient	0.976
Network diameter	3
Graph density	0.371

### A.5.2 3 Median Hubs

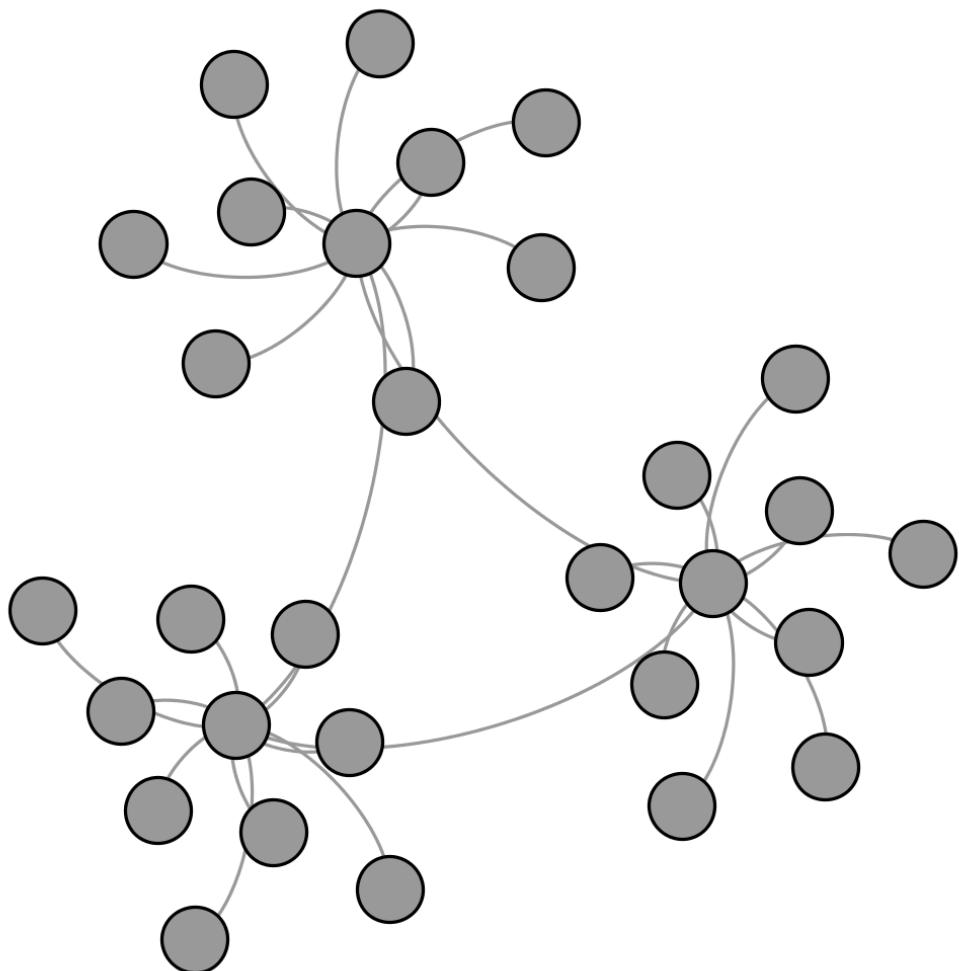


Figure 32: 3 Median Hub topology

Table 41: Network metrics 3 Median Hub topology

Avg. degree	2
Avg. path-length	2.49
Avg. clustering coefficient	0.018
Network diameter	3
Graph density	0.069

### A.5.3 Median Hub

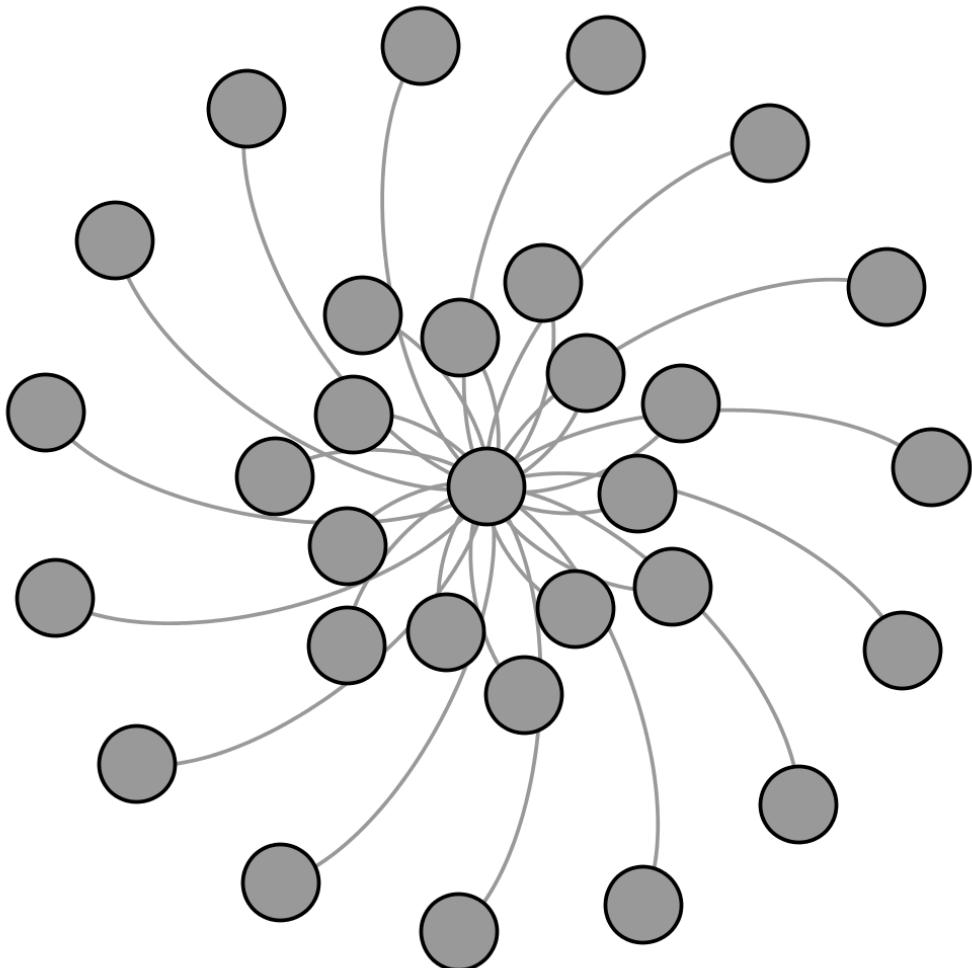


Figure 33: Median Hub topology

Table 42: Network metrics Median Hub topology

Avg. degree	1.933
Avg. path-length	1.933
Avg. clustering coefficient	0
Network diameter	2
Graph density	0.067

#### A.5.4 Maximum Hub

Looks the same as 1 Median Hub but all edges are connected to the agent with the highest optimism-value. Has thus also the same metrics as the optimism-values have no functional influence on the metrics.

## A.6 Small-World and Scale-Free topologies

### A.6.1 Erods-Renyi

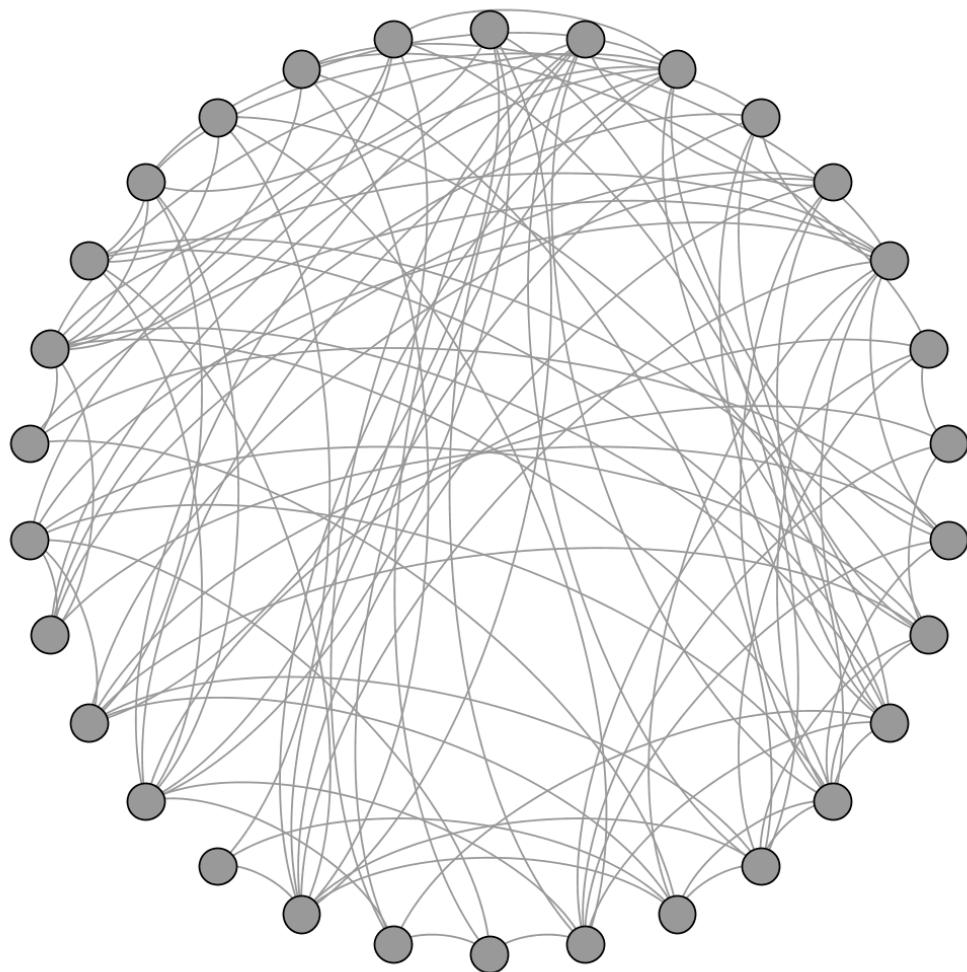


Figure 34: Erdos-Renyi topology with inclusion-probability of 0.2

Table 43: Network metrics Erdosy-Renyi 0.2

Avg. degree	6.8
Avg. path-length	1.913
Avg. clustering coefficient	0.266
Network diameter	3
Graph density	0.234
Connected component	1

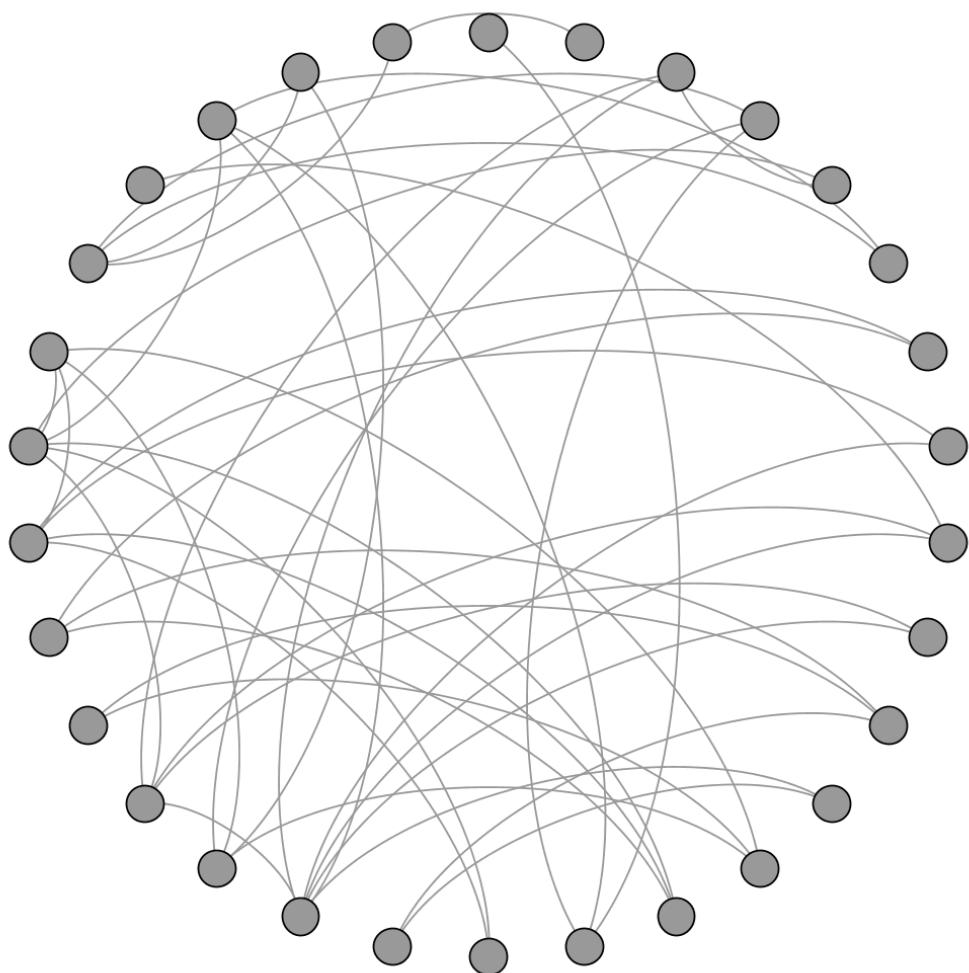


Figure 35: Erdosy-Renyi topology with inclusion-probability of 0.1

Table 44: Network metrics Erdosy-Renyi 0.1

Avg. degree	2.933
Avg. path-length	3.262
Avg. clustering coefficient	0.103
Network diameter	7
Graph density	0.101
Connected component	1

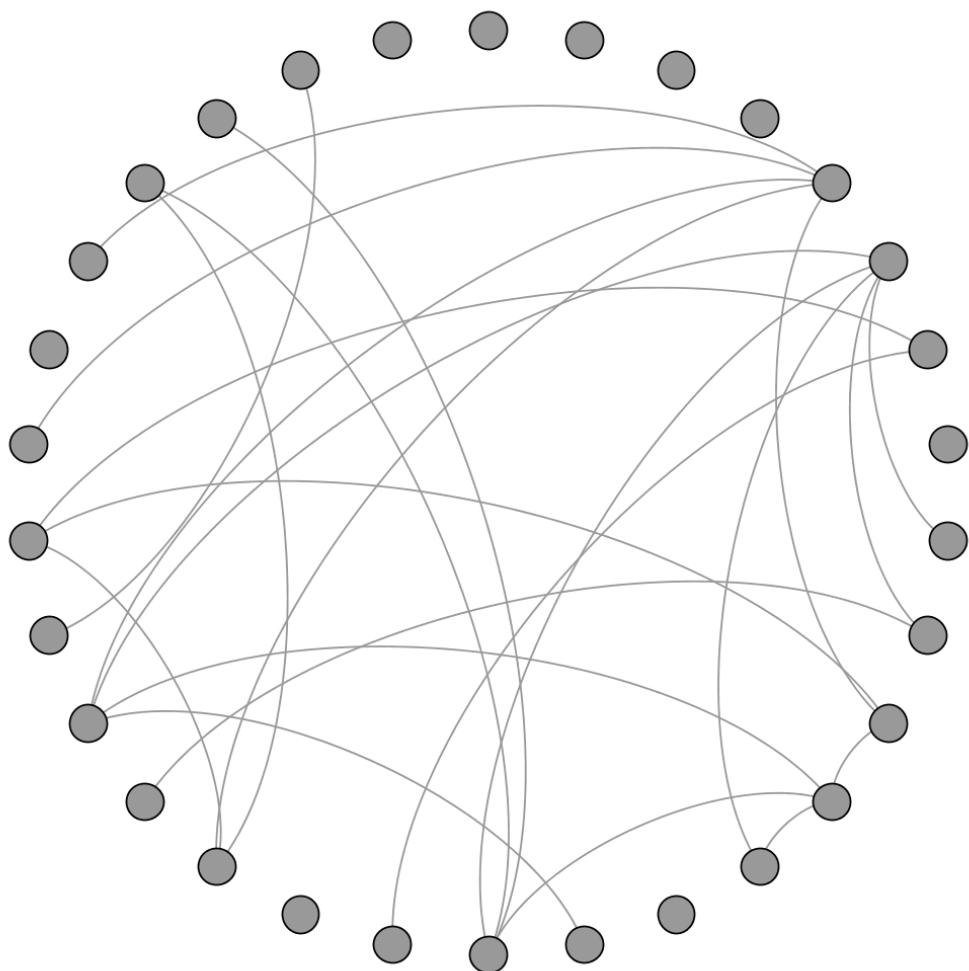


Figure 36: Erdos-Renyi topology with inclusion-probability of 0.05

Table 45: Network metrics Erdosy-Renyi 0.05

Avg. degree	1.6
Avg. path-length	3.052
Avg. clustering coefficient	0
Network diameter	8
Graph density	0.055
Connected component	11

### A.6.2 Barbsi-Albert

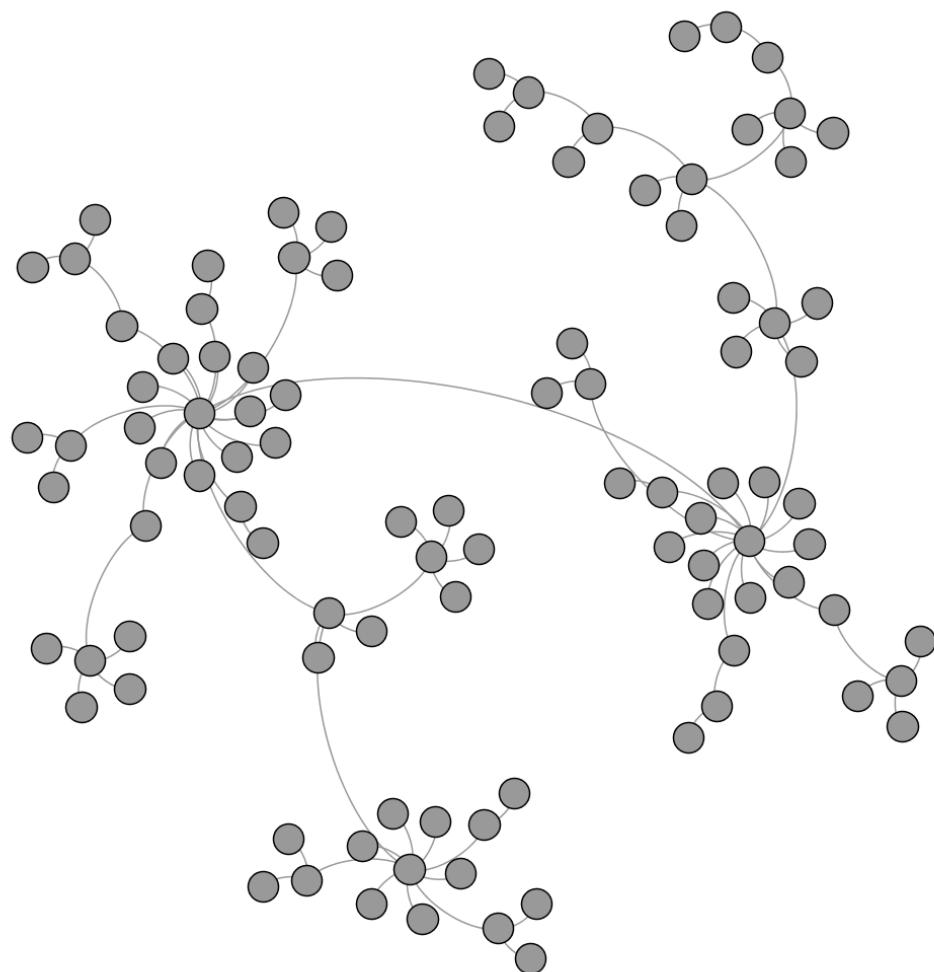
Figure 37: Barbsi-Albert topology with  $m_0=3$ ,  $m=1$

Table 46: Network metrics Barabasi-Albert m0=3, m=1

Avg. degree	1.98
Avg. path-length	4.684
Avg. clustering coefficient	0
Network diameter	11
Graph density	0.02

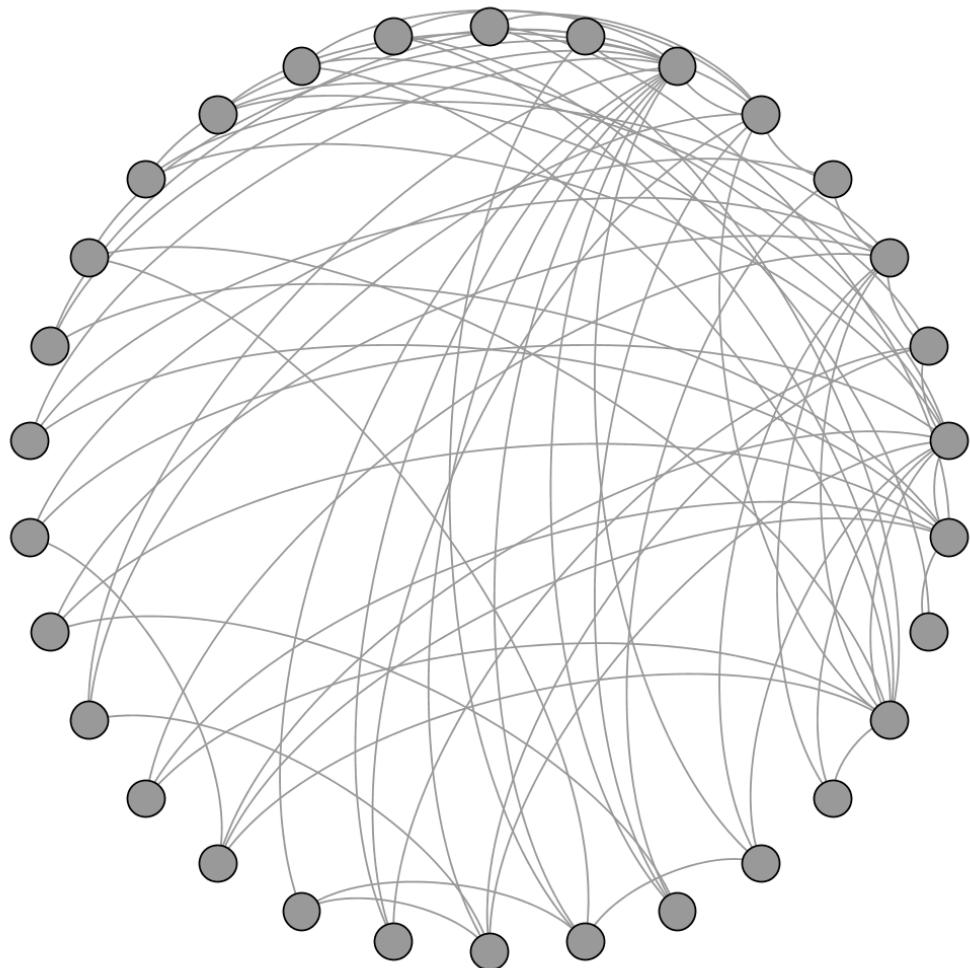
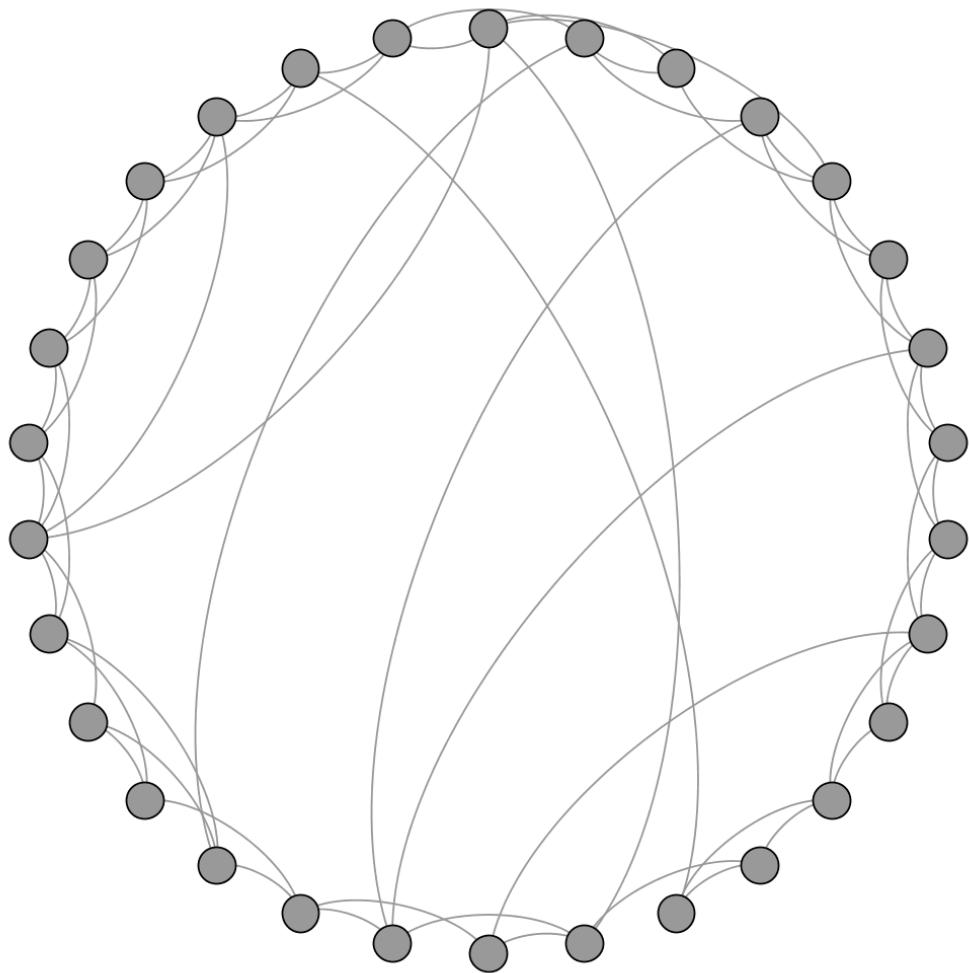
Figure 38: Barabasi-Albert topology with  $m_0=9$ ,  $m=3$

Table 47: Network metrics Barabasi-Albert m0=9, m=3

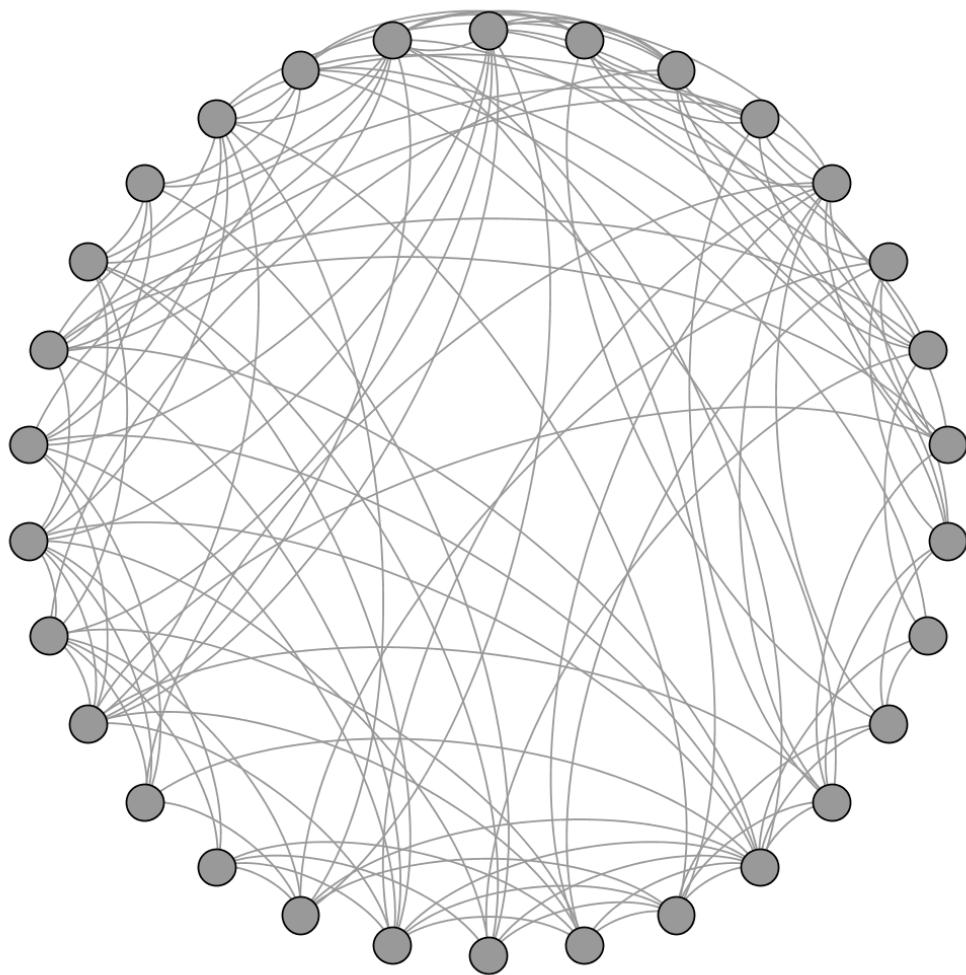
Avg. degree	4.733
Avg. path-length	2.11
Avg. clustering coefficient	0.279
Network diameter	4
Graph density	0.163

### A.6.3 Watts-Strogatz

Two params: k and p Creates N nodes and connects each to k neighbours and rewire each existing edge with a probability of 0.2 to another node with lower id (younger).

Figure 39: Watts-Strogatz topology with  $k=2$ ,  $p=0.2$ Table 48: Network metrics Watts-Strogatz  $k=2$ ,  $p=0.2$ 

Avg. degree	4
Avg. path-length	2.883
Avg. clustering coefficient	0.259
Network diameter	6
Graph density	0.138

Figure 40: Watts-Strogatz topology with  $k=4$ ,  $p=0.5$ Table 49: Network metrics Watts-Strogatz  $k=4$ ,  $p=0.5$ 

Avg. degree	8
Avg. path-length	1.823
Avg. clustering coefficient	0.241
Network diameter	3
Graph density	0.276

## Appendix B

### Results for Hub-Based, Scale-Free and Small-World

#### B.1 Half-Fully Connected

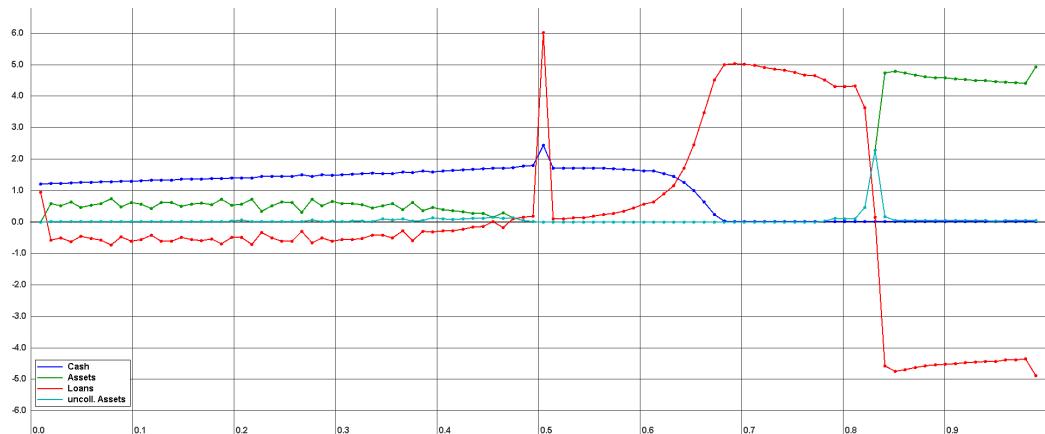


Figure 41: Wealth-Distribution of Half-Fully Connected topology

Table 50: Equilibrium of Half-Fully Connected topology

Asset-Price p	0.651 (0.027)
Bond-Price q	0.362 (0.013)
Marginal agent i1	0.640 (0.015)
Marginal agent i2	0.833 (0.09)
Pessimist Wealth	1.22 (0.096)
Medianist Wealth	2.258 (0.409)
Optimist Wealth	4.526 (0.071)

Table 51: Performance of Half-Fully Connected topology

Successful matching-rounds	14,218.9 (4621.74)
Failed matching-rounds	1034.12 (22.99)
Total matching-rounds	15,253.02 (4633.44)
Ratio successful/total	0.93
Ratio failed/total	0.07

The equilibrium is clearly distinct from the theoretical and Fully-Connected one as miss-allocation can be found within the pessimists-range. Also the i1- and i2-points and the wealth-distributions differ both numerically and visually.

## B.2 Ascending-Connected with short-cuts

### B.2.1 Random short-cuts

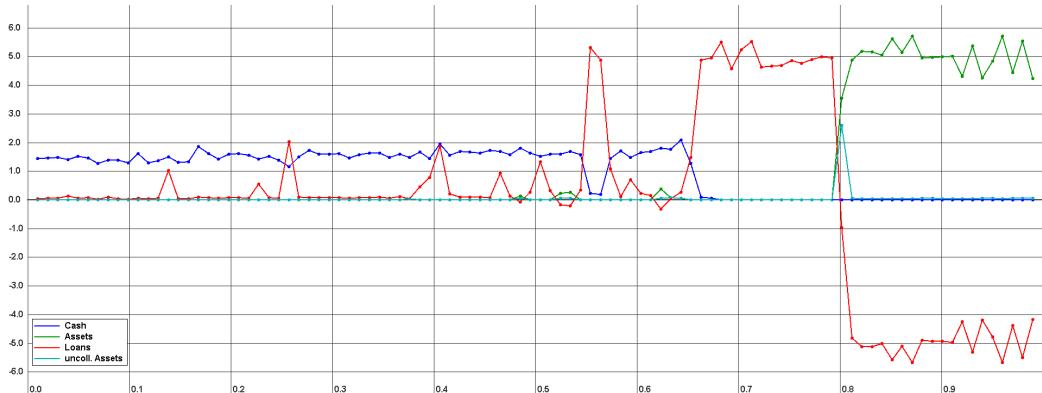


Figure 42: Wealth-Distribution of Ascending-Connected random short-cuts topology

Table 52: Equilibrium of Ascending-Connected random short-cuts topology

Asset-Price p	0.731 (0.019)
Bond-Price q	0.393 (0.009)
Marginal agent i1	0.649 (0.005)
Marginal agent i2	0.804 (0.004)
Pessimist Wealth	1.441 (0.03)
Medianist Wealth	4.282 (0.278)
Optimist Wealth	4.974 (0.038)

Table 53: Performance of Ascending-Connected random short-cuts topology

Successful matching-rounds	8314.78 (229.85)
Failed matching-rounds	1182.06 (29.23)
Total matching-rounds	9496.84 (228.23)
Ratio successful/total	0.87
Ratio failed/total	0.13

Random short-cuts seem to reduce the miss-allocation of pessimists-wealth a bit but lead to a fundamental different equilibrium than the theoretical or fully-connected one as can clearly be seen both visually and numerically.

### B.2.2 2 short-cuts

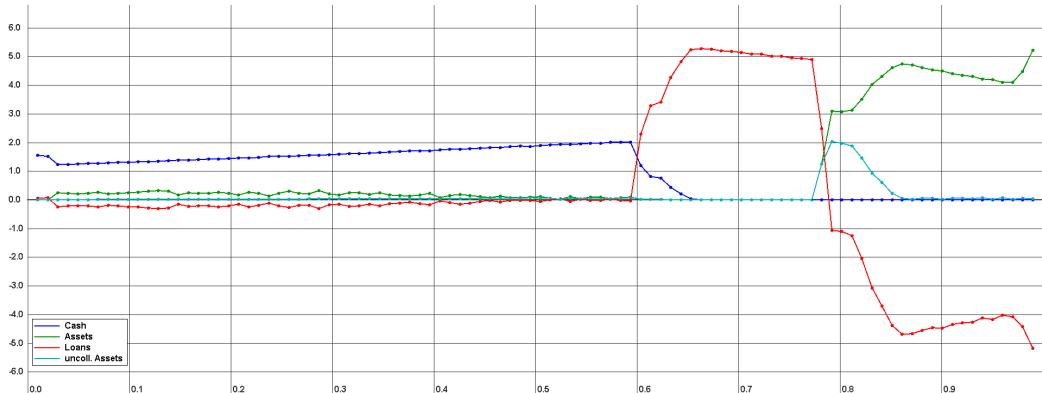


Figure 43: Wealth-Distribution of Ascending-Connected 2 short-cuts topology

Table 54: Equilibrium of Ascending-Connected 2 short-cuts topology

Asset-Price p	0.662 (0.024)
Bond-Price q	0.376 (0.006)
Marginal agent i1	0.608 (0.018)
Marginal agent i2	0.805 (0.028)
Pessimist Wealth	1.441 (0.21)
Medianist Wealth	3.978 (1.442)
Optimist Wealth	4.514 (0.063)

Table 55: Performance of Ascending-Connected random short-cuts topology

Successful matching-rounds	37,093.64 (12,864.4)
Failed matching-rounds	1021. (18.85)
Total matching-rounds	38,115.54 (12,851.53)
Ratio successful/total	0.97
Ratio failed/total	0.03

This topology reduces the miss-allocation in the pessimists-range dramatically but doesn't solve it yet. Unfortunately it leads to a dramatically different wealth-distribution within the medianists and optimist.

### B.2.3 5 full short-cuts

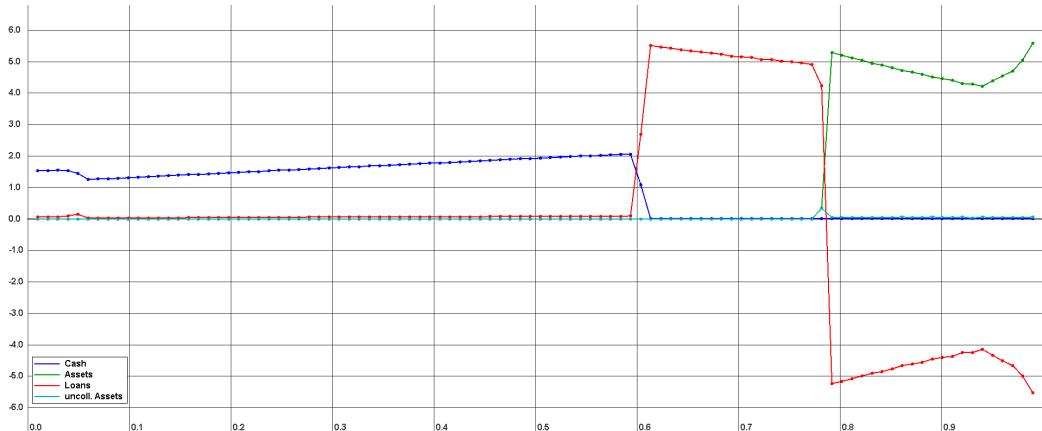


Figure 44: Wealth-Distribution of Ascending-Connected 5 full short-cuts topology

Table 56: Equilibrium of Ascending-Connected 5 full short-cuts

Asset-Price p	0.656 (0.019)
Bond-Price q	0.371 (0.003)
Marginal agent i1	0.594 (0.0)
Marginal agent i2	0.792 (0.0)
Pessimist Wealth	1.649 (0.002)
Medianist Wealth	5.013 (0.018)
Optimist Wealth	4.746 (0.011)

Table 57: Performance of Ascending-Connected 5 full short-cuts topology

Successful matching-rounds	16,971.34 (228.0)
Failed matching-rounds	1026.92 (22.68)
Total matching-rounds	17,998.26 (225.23)
Ratio successful/total	0.94
Ratio failed/total	0.06

As can be clearly seen this topology seems to be able to solve miss-allocations in the pessimists-range seen in Ascending-Connected topology but is still different than the theoretical and Fully-Connected equilibrium.

#### B.2.4 15 full short-cuts

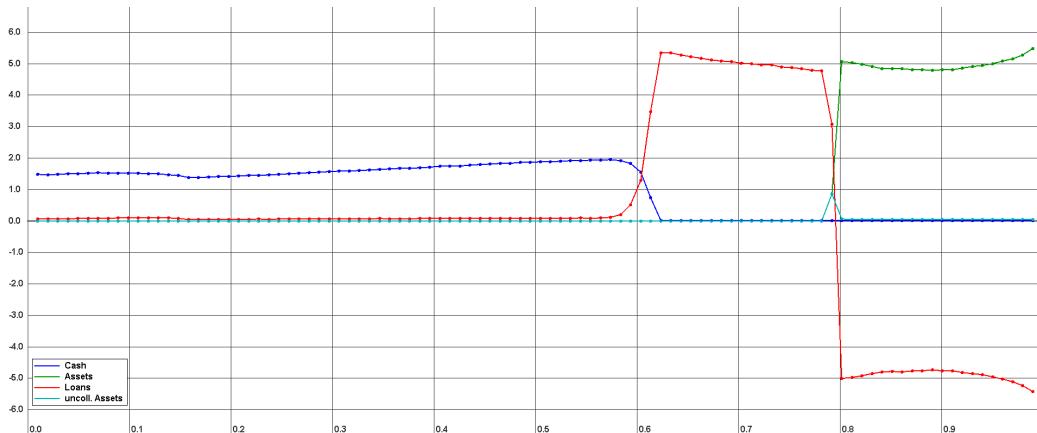


Figure 45: Wealth-Distribution of Ascending-Connected 15 full short-cuts topology

Table 58: Equilibrium of Ascending-Connected 15 full short-cuts topology

Asset-Price p	0.658 (0.024)
Bond-Price q	0.366 (0.009)
Marginal agent i1	0.601 (0.004)
Marginal agent i2	0.802 (0.0)
Pessimist Wealth	1.649 (0.004)
Medianist Wealth	4.811 (0.092)
Optimist Wealth	4.957 (0.021)

Table 59: Performance of Ascending-Connected 15 full short-cuts topology

Successful matching-rounds	4498.08 (58.67)
Failed matching-rounds	1024.78 (17.3)
Total matching-rounds	5522.860 (64.72)
Ratio successful/total	0.81
Ratio failed/total	0.19

This topology comes very close to the theoretical equilibrium but is still a bit different as can be seen in the curved wealth-distributions of the pure optimists.

### B.2.5 30 full short-cuts

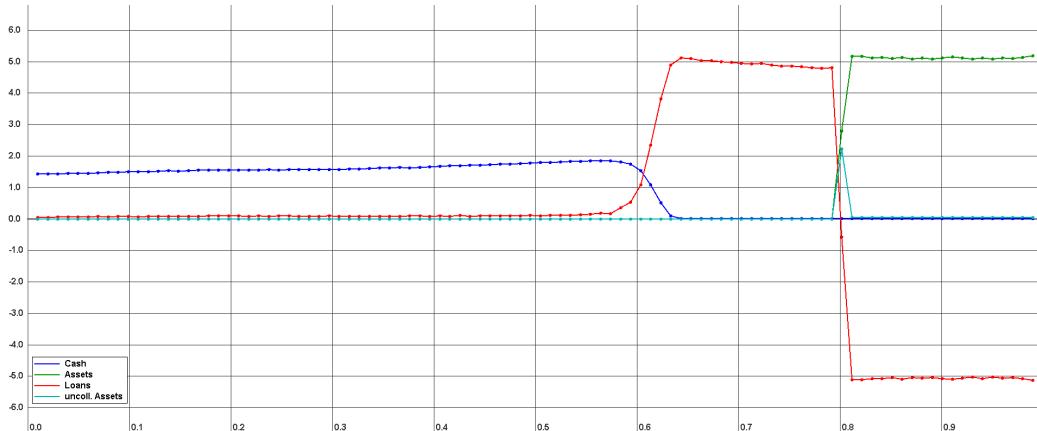


Figure 46: Wealth-Distribution of Ascending-Connected 30 full short-cuts topology

## APPENDIX B. RESULTS FOR HUB-BASED, SCALE-FREE AND SMALL-WORLD80

Table 60: Equilibrium of Ascending-Connected 30 full short-cuts topology

Asset-Price p	0.681 (0.012)
Bond-Price q	0.378 (0.006)
Marginal agent i1	0.603 (0.006)
Marginal agent i2	0.802 (0.1)
Pessimist Wealth	1.649 (0.009)
Medianist Wealth	4.702 (0.112)
Optimist Wealth	5.004 (0.025)

Table 61: Performance of Ascending-Connected 30 full short-cuts topology

Successful matching-rounds	2211.08 (35.88)
Failed matching-rounds	1014.68 (10.55)
Total matching-rounds	3225.76 (40.18)
Ratio successful/total	0.68
Ratio failed/total	0.32

This topology is very close to the theoretical and Fully-Connected equilibrium although it differs in asset-price p and in the wealth-distributions. Of course with 30 fully short-cuts in a network of 100 agents on is already very close to fully connectedness.

### B.2.6 5 regular short-cuts

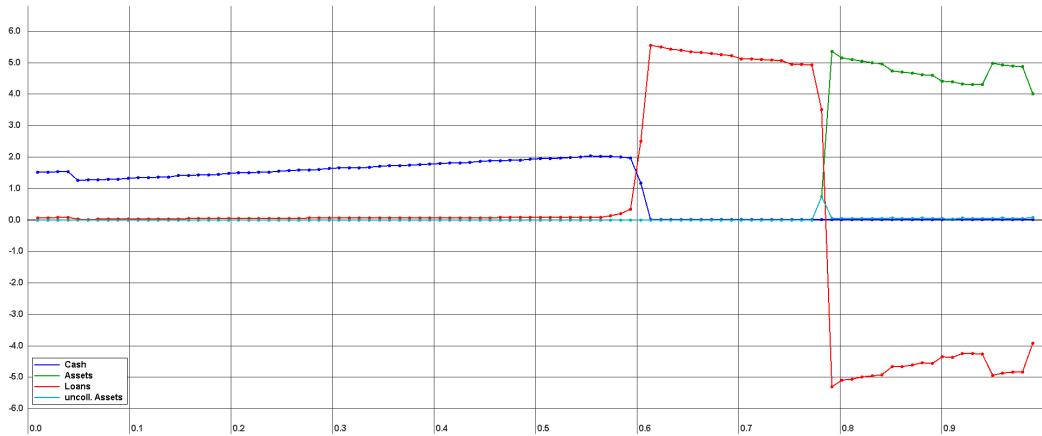


Figure 47: Wealth-Distribution of Ascending-Connected 5 regular short-cuts topology

Table 62: Equilibrium of Ascending-Connected 5 regular short-cuts topology

Asset-Price p	0.665 (0.016)
Bond-Price q	0.364 (0.007)
Marginal agent i1	0.595 (0.003)
Marginal agent i2	0.792 (0.0)
Pessimist Wealth	1.649 (0.003)
Medianist Wealth	4.991 (0.045)
Optimist Wealth	4.727 (0.011)

Table 63: Performance of Ascending-Connected 5 regular short-cuts topology

Successful matching-rounds	14,570.44 (157.61)
Failed matching-rounds	1064.24 (29.88)
Total matching-rounds	15,634.68 (166.21)
Ratio successful/total	0.93
Ratio failed/total	0.07

As can be seen in the visual results this topology shows a different equilibrium than the theoretical and Fully-Connected one.

### B.2.7 15 regular short-cuts

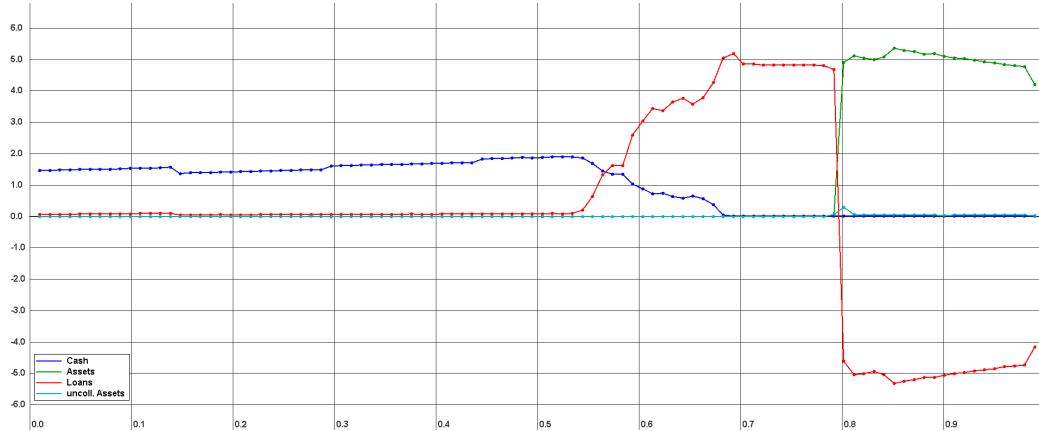


Figure 48: Wealth-Distribution of Ascending-Connected 15 regular short-cuts topology

Table 64: Equilibrium Ascending-Connected 15 regular short-cuts topology

Asset-Price p	0.705 (0.020)
Bond-Price q	0.357 (0.018)
Marginal agent i1	0.586 (0.023)
Marginal agent i2	0.802 (0.0)
Pessimist Wealth	1.649 (0.051)
Medianist Wealth	4.146 (0.101)
Optimist Wealth	4.997 (0.007)

Table 65: Performance of Ascending-Connected 15 regular short-cuts topology

Successful matching-rounds	4373.28 (50.13)
Failed matching-rounds	1129.24 (19.2)
Total matching-rounds	5502.52 (52.11)
Ratio successful/total	0.79
Ratio failed/total	0.21

The equilibrium of this topology is falls very far from the theoretical and Fully-Connected one.

### B.2.8 30 regular short-cuts

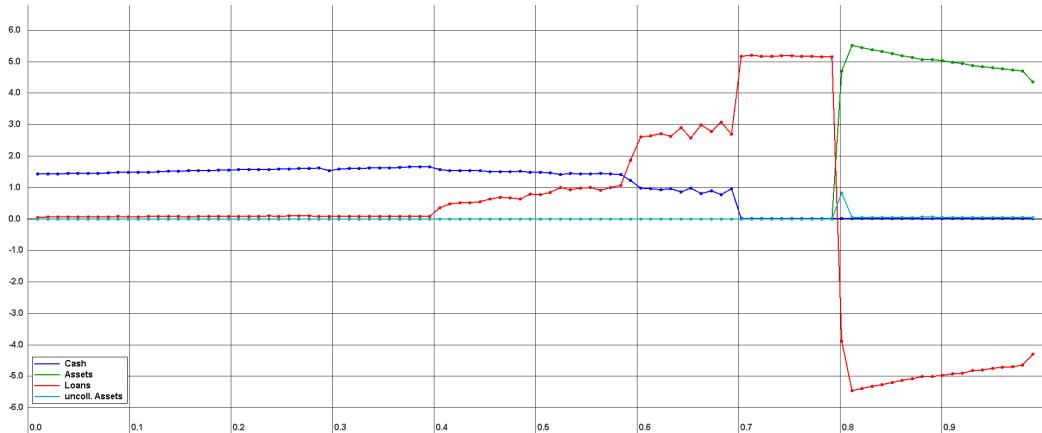


Figure 49: Wealth-Distribution of Ascending-Connected 30 regular short-cuts topology

Table 66: Equilibrium of Ascending-Connected 30 regular short-cuts topology

Asset-Price p	0.710 (0.021)
Bond-Price q	0.398 (0.008)
Marginal agent i1	0.589 (0.021)
Marginal agent i2	0.802 (0.0)
Pessimist Wealth	1.479 (0.049)
Medianist Wealth	3.713 (0.125)
Optimist Wealth	5.0 (0.0)

Table 67: Performance of Ascending-Connected 30 regular short-cuts topology

Successful matching-rounds	5427.02 (90.82)
Failed matching-rounds	1139.04 (27.74)
Total matching-rounds	6566.06 (96.04)
Ratio successful/total	0.82
Ratio failed/total	0.18

The equilibrium of this topology is falls very far from the theoretical and Fully-Connected one.

### B.3 Hub-Based topologies

The Hub-Based Topologies fail to come even close to equilibrium due to reasons given in Chapter "Topologies and Hypothesis". This can be seen also very clearly in the visual results and thus no performance- and equilibrium-tables are listed as they would not make any sense.

### B.3.1 3-Hubs

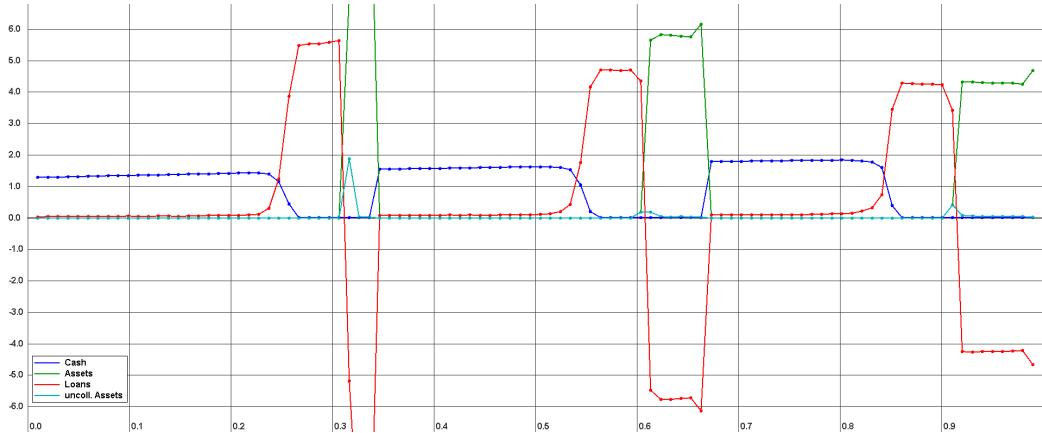


Figure 50: Wealth-Distribution of 3-Hubs topology

### B.3.2 1-Median Hub

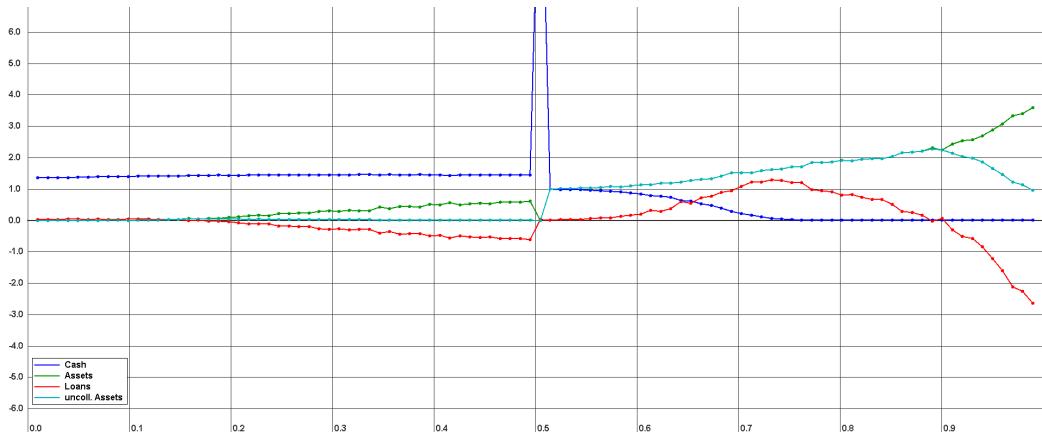


Figure 51: Wealth-Distribution of 1 Median-Hub topology

### B.3.3 3-Median Hubs

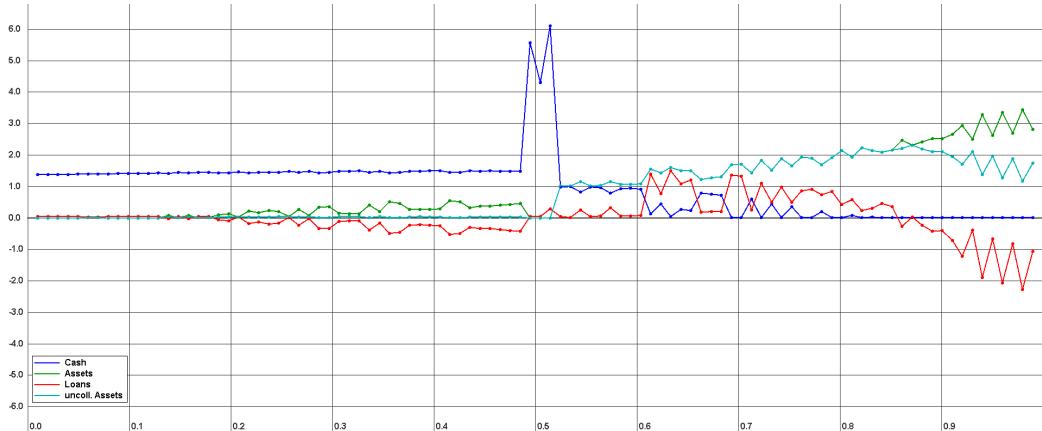


Figure 52: Wealth-Distribution of 3 Median-Hubs topology

### B.3.4 Maximum Hub

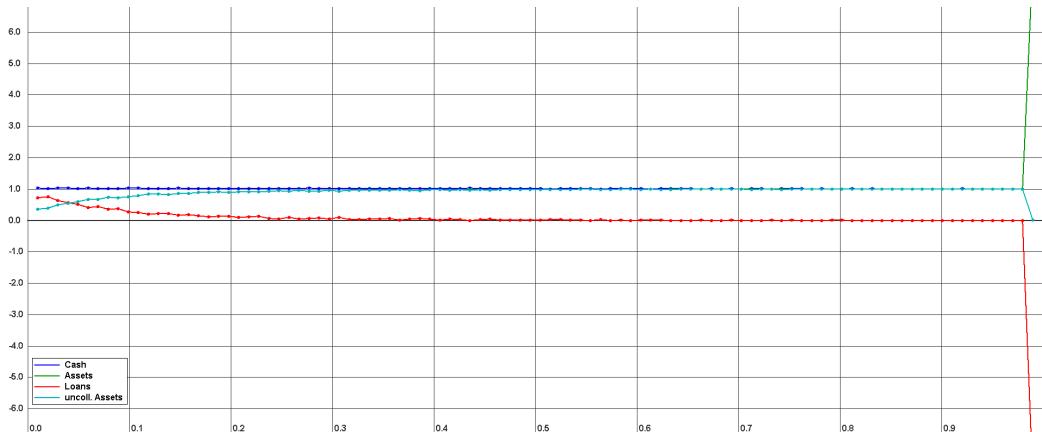


Figure 53: Wealth-Distribution of Maximum-Hub topology

## B.4 Scale-Free and Small-World topologies

This topologies fail to come even close to equilibrium too due to reasons given in Chapter "Topologies and Hypothesis". This can be seen also very clearly in the visual results and thus no performance- and equilibrium-tables are listed as they would not make any sense.

### B.4.1 Erdos-Renyi

Note that with the correct parametrization this topology could satisfy the hypothesis by pure chance. The result would be a pure random network as a Ascending-Connected topology with random short-cuts but as already showed above this Ascending-Connected random short-cuts network fails from producing the theoretical and Fully-Connected equilibrium.

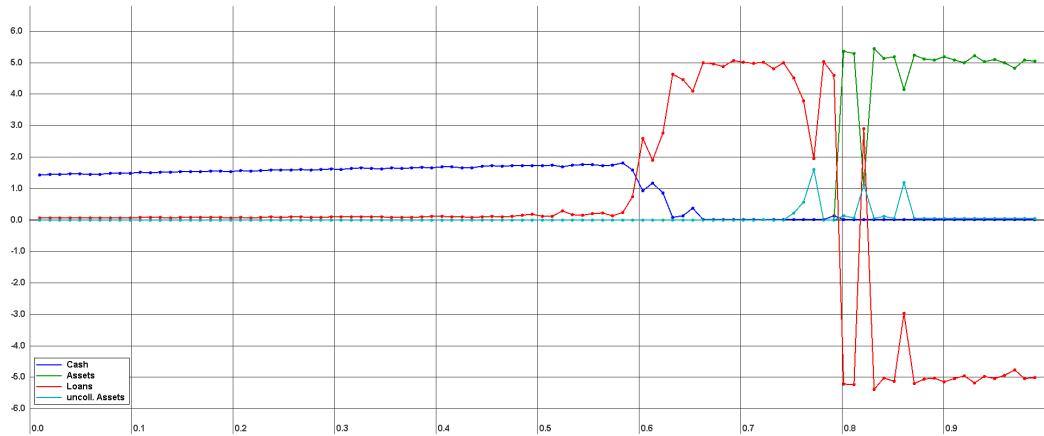


Figure 54: Wealth-Distribution of Erdos-Renyi 0.2 topology

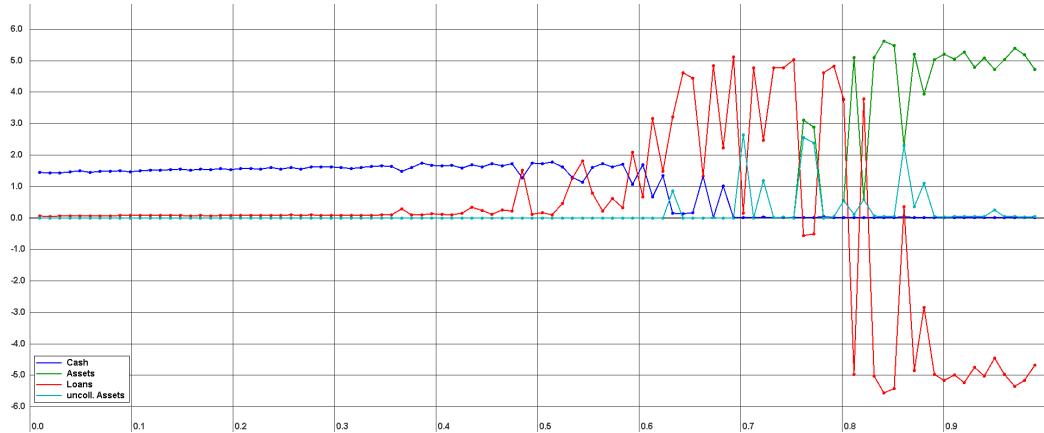


Figure 55: Wealth-Distribution of Erdos-Renyi 0.1 topology

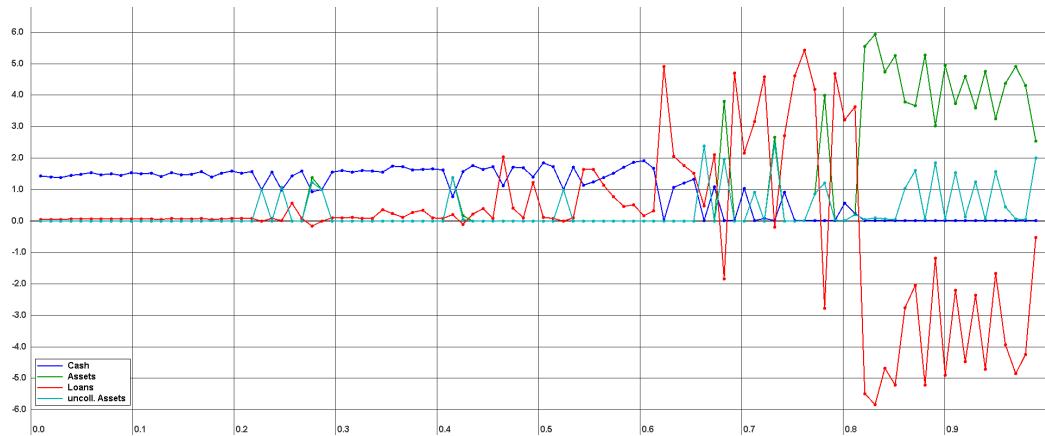


Figure 56: Wealth-Distribution of Erdos-Renyi 0.05 topology

#### B.4.2 Barbasi-Albert

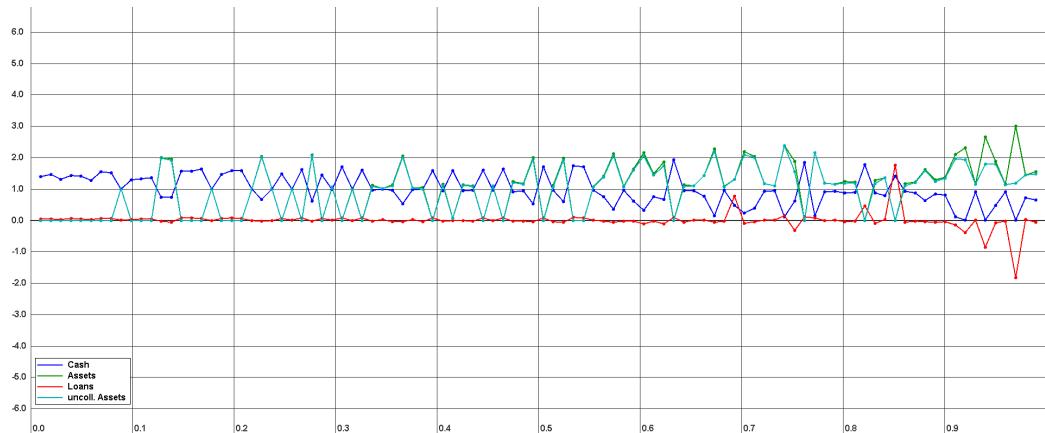
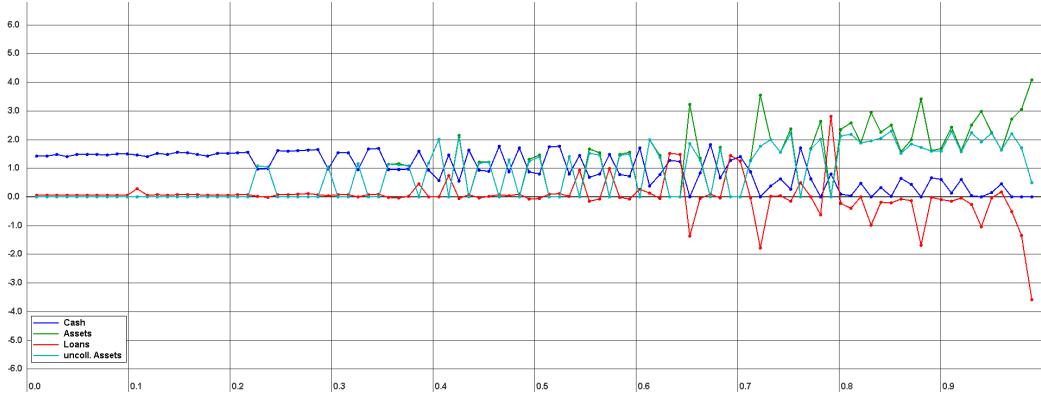
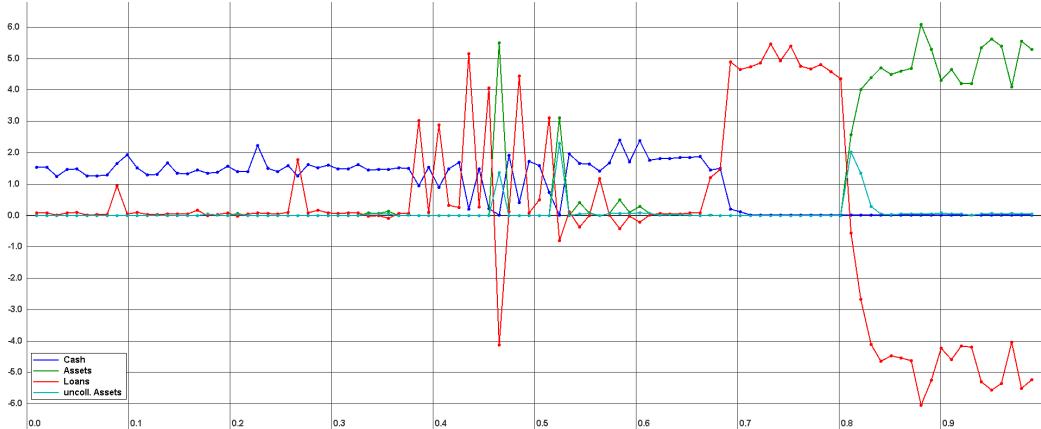


Figure 57: Wealth-Distribution of Barabasi-Albert  $m_0=3, m=1$  topology

Figure 58: Wealth-Distribution of Barabasi-Albert  $m_0=9$ ,  $m=3$  topology

### B.4.3 Watts-Strogatz

Note that with the correct parametrization this topology could satisfy the hypothesis by pure chance too. The result would be a pure random network as a Ascending-Connected topology with random short-cuts but as already showed above this Ascending-Connected random short-cuts network fails from producing the theoretical and Fully-Connected equilibrium.

Figure 59: Wealth-Distribution of Watts-Strogatz  $k=2$ ,  $b=0.2$  topology

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