

The Hong Kong University of Science and Technology
Department of Information Systems,
Business Statistics and Operations Management

Seminar Announcement

*Intermarket Competition in U.S. Equity Options Trading:
A Diffusion Analysis of New Exchange Entrants*

by

*Professor Bruce Weber
London Business School*

Date: Wednesday, 14 April 2010

Time: 2:30 pm

Venue: Room 4379, ISOM Conference Room (Lift 17/18)

~~~~~ All interested are welcome ~~~~~

**Abstract:**

New financial markets try in a number of ways to achieve successful diffusion and attract a critical mass of participation and usage. Two innovative, all-electronic options exchanges, the International Securities Exchange (ISE) and the Boston Options Exchange (BOX), opened for trading in 2000 and 2004, and offered immediate trading, direct user access to the market, and reduced costs. ISE and BOX gained trading volumes in competition with four incumbent markets in the U.S. including the largest, the Chicago Board Options Exchange (CBOE). To explain the markets' diffusion patterns, we first develop a simplified model of broker order routing decisions among competing markets. The model generates hypotheses, which we test using a panel of six years of quarterly disclosures from 24 major brokerage firms to estimate models of the new markets' growth. We conclude that firm heterogeneity, including factors such as membership affiliations and firm characteristics, are more influential than network effects in explaining the diffusions of the new markets at the broker level. Policy considerations and implications for new trading platforms are described.

Keywords: Diffusion of IT innovations, electronic markets, trading technology, adoption, market competition

(This is joint work with Chris Parker)

**Biography:**

Bruce W. Weber is Professor of Information Management and Subject Area Chair of Management Science & Operations at the London Business School, where he teaches "IT for Business Value", "Financial Information Systems", and "Trading & Financial Market Structure" in MBA, masters, and executive programs. He has an A.B. in Applied Mathematics from Harvard University and a Ph.D. in Decision Sciences from the Wharton School of the University of Pennsylvania. His research on strategic uses of IT and the computerization of financial services has been published in a number of academic journals, and he has consulted for a number of financial sector organizations. Prior to joining the London Business School in 2003, he was on the faculty of the Stern School of Business, New York University, and Baruch College of the City University of New York, where he was founding director of the Wasserman Trading Floor, a 60-workstation financial market education center with analytic software and real-time market price feeds. He has co-authored two books: *The Equity Trader Course* (Wiley, 2006) with Professor Robert A. Schwartz and Dr. Reto Francioni, the CEO of Deutsche Börse, and *Mastering the Art of Equity Trading through Simulation* with Prof. Schwartz and Gregory Sipress. He is developer, with Bob Schwartz of the TraderEx simulation (<http://www.etraderex.net/>).