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DISCUSSION OF THE PAPER "MISSING MARKETS: MARKET MICROSTRUCTURE AND MARKET FAILURE ON THE 19TH CENTURY LONDON STOCK EXCHANGE"

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- **This paper studies the determinants of the dealers' strategies (market-making vs match-making) and the determinants of the spreads on the 19th century London Stock Exchange (LSE)**
  - This market is characterized for having low-entry cost and no restrictions in market-making activities
- **Data on which securities were dealer-supported is not directly available**
  - They derive a likelihood function that combines the decision to support a security with a model for misclassification of the dependent variable
  - By doing that they jointly estimate the association between dealer support for a security and the spread on that security
- **The authors show that**
  - Dealers preferred to support large issues, equities, sovereign issuers and securities with lower spread
  - The estimated bid-ask spreads decrease in the size of the issue and the nominal price of the security; They are smaller for domestic securities and for sovereign bonds

➔ **Very interesting paper that overcome important empirical issues**

- **The authors employ:**
  - *Testimony to the 1877 Royal Commission on the London Stock Exchange*
  - *The London Daily Stock & Share List for October 19th, 1877*

Figure 2: An excerpt from the London Daily Stock and Share List October, 19th 1877

BANKS.

Author-ised Issue.	Shares	When x d or x in.	NAME.	PAID.	CLOSING QUOTATIONS, Oct. 19	BUSINESS DONE
100,000	10	28 Sept.	A[illegible]rn, Limited	all	10½ — 11	11a10¾
80,000	2[illegible]	31 July	A[illegible]liance, Limited	10	12¼ — 13½	13
150,000	200 †	31 Mar.75	A[illegible]nglo-Austrian	120£ †	8¼ — 8½	
23,970	2[illegible]	13 Sept.	A[illegible]nglo-Californian, Limited	10	¾ — ¼ xa	
60,000	20	30 Nov.75	Anglo-Egyptian Banking, Limited	all	11¼ — 12¼	12a11¾
60,000	20	27 April	Anglo-Foreign Banking, Limited	10	1¼ — 1½ div	
40,000	100	29 My.73	Anglo-Hungarian	all	4 — 4¼	
15,000	20	14 Feb	Anglo-Italian, 1866, Limited	10	4¾ — 4½ div	

➔ **What is the sample span of the data? Do you have information for one day (19th October) or a period of time? How many dates?**

➔ **Clarify process to construct the dataset**

➔ What is the proportion of cases in which the information is gathered form Branch reports? And from other dealers?

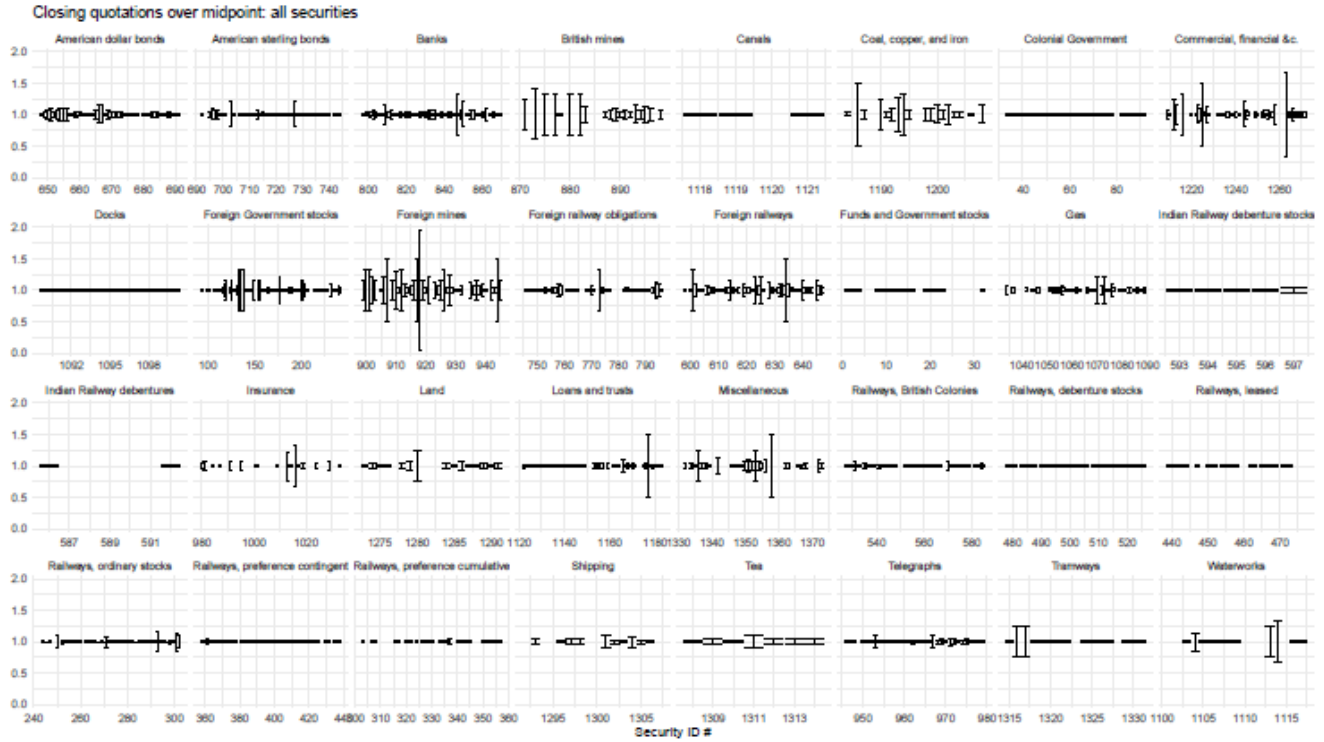
➔ **Provide more analytical information**

Table 1: Summary statistics of the variables used in the statistical analys

variable	Mean	Median	Std.Dev.	Min	Max
domestic	0.43	0.00	0.49	0.00	1.00
empire	0.17	0.00	0.38	0.00	1.00
equity	0.49	0.00	0.50	0.00	1.00
non-corporate	0.23	0.00	0.42	0.00	1.00
ln(Auth. Iss.)	0.00	-0.02	1.00	-2.49	4.05
ln(Price)	0.00	0.53	1.00	-3.54	2.32
ln(Group Size)	0.00	0.06	1.00	-4.34	1.84

Provide information w/o normalized, number of firms, avg. number of observations per firm…

Provide more information on the closing quotation

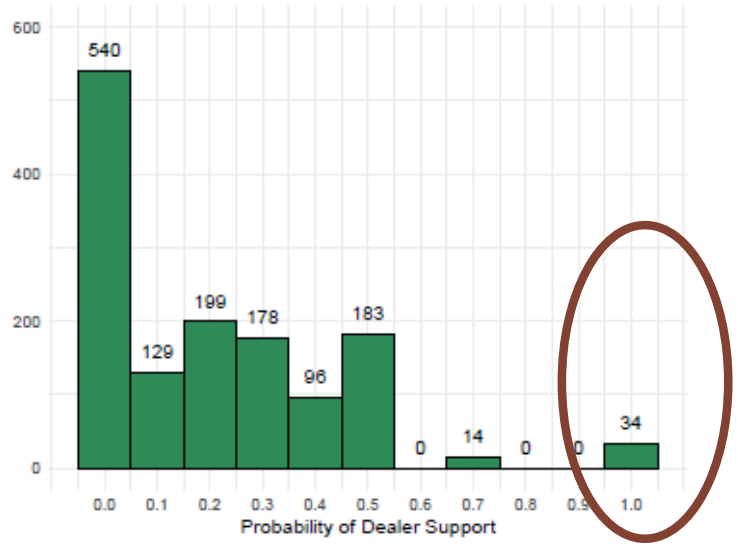


Notes: The closing quotations are normalized by their mid-point. Data was collected from the October, 19th 1877 edition of the *London Daily Stock and Share List.*

- **The authors make an important effort to overcome the fact that dealer-support is not directly available**

- **According to the data, only a 2.5% of securities were definitely dealer supported…**

Figure 5: Probabilities of dealer support



True Classification	Perc. Correct	Perc. Incorrect
0	0.94	0.06
1	0.80	0.20

- **… according to the model estimates, there are 20% of misclassifications for the "true 1"**
  - Subsampling using the firms with the higher probability of dealer support
  - Stress the results on the characteristics that hamper the dealer support

- **"Business Done", which informs about the actual transactions, has problems as censoring (by size and trading hours), bias (towards bad bargains)**
  - Discuss the potential impact of these problems on the estimates

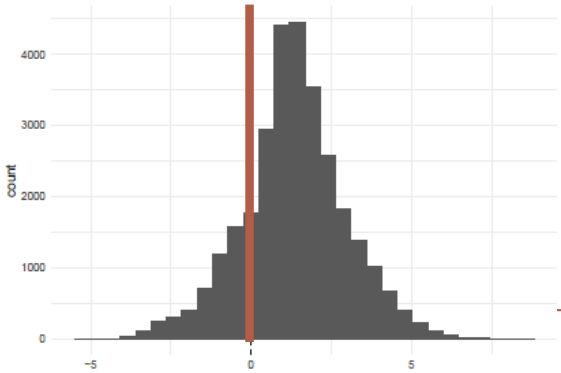
- **Market microstructure literature studies different markets separately**
  - Closer papers as Acheson et al. (2018) and Chavaz and Flandreu (2017) also study one market
- **On the contrary, this paper jointly models bond and equity markets**
  - By nature these two assets are different and potential investors could be different as well
  - Thus, I would recommend to study these markets individually…
  - … or just focus on the market with the higher proportion of "True 1"

- **The authors include the following set of covariates: Dummy Domestic, Dummy Empire, Dummy Equity, Dummy Non-corporate, Amount Issue, Price, Group Size**
  - Price volatility is an important aspect to determine both, dealer behavior and spreads and I would recommend to include in the model specification

- **In addition, I suggest to control for the security sub-market**
  - Due to the existence of "physical" restrictions I guess that dealers' decisions on market-making on a security strongly relies not only on the security itself but on the dynamics on the other securities in the same sub-market

- **Additional analyses**
  - A nice contribution to the literature would be to show what happen with the commovements of those securities that have dealers support
  - Can you say something about the number of dealers market-making a security?

- **Additional discussions**
  - Provide policy implications
    - *At the sight of the results, the existence of the "liquidity bifurcation" is not a new phenomenon…*
    - *… what can we learn from the experience of the LSE in the 19th century?*
  - Potential endogeneity problems
    - *Do dealers select securities with low spreads? Do securities have low spreads because of the dealer support?*
  - The evaluation of the model's accuracy in predicting the spread on the "True 1" shows that the estimated spreads are systematically larger that the observed
    - *Why is it the case? What is the implication for the model?*



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Thank you very much for your attention