



Martingales and financial crises

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ABSTRACT

When a financial crisis occurs, speculators typically get the blame whereas fundamentalists are presented as the safeguard against excessive volatility. This paper considers two types: speculators and fundamentalists who have the same information. In this paper, excess volatility not only exists, but is actually fueled by fundamental trading. Consequently, efficient markets are more volatile with a few speculators than with many speculators and the existence of fundamentalists ruins market's liquidity and this may pose problems for traders, who intend to undertake frequent transactions.

Keyword:

- ✓ *Speculators*
- ✓ *Fundamentalist*
- ✓ *efficient market*
- ✓ *bubbles*
- ✓ *martingales*

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