

# USC Marshall

School of Business

**FBE-554: TRADING AND EXCHANGES**  
**Spring 2024 –Section 15426R**  
**3 units, MW 9:30 a.m. – 10:50 a.m., JKP 102**

**Instructor:** Larry Harris  
**Office:** HOH 806

**Office Hours:** Mondays 2:00 p.m. – 3:00 p.m.  
Tuesdays 2:00 p.m. – 3:00 p.m.  
Fridays 1:30 p.m. – 2:30 p.m.  
or by appointment  
in HOH 806, at <https://usc.zoom.us/j/4657329913>, or by phone

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## COURSE DESCRIPTION

“Trading and Exchanges” will introduce you to the theory and practice of securities and contract trading at exchanges, in dealer networks, and among brokers. We will examine

- why and how people trade,
- who profits from investing and speculating, and when,
- the principles of proprietary trading and high-frequency trading,
- why market institutions are organized as they are,
- how markets are changing in response to innovations in information technologies,
- the origins of liquidity, volatility, price efficiency, and trading profits, and
- the role of public policy in the markets.

We will address these issues by studying why and how institutions, dealers, and individuals trade. The primary course objective is understanding trader behavior and how market structure affects behavior.

We also will identify and discuss applications of the economic principles we are learning to other issues we encounter in our business and personal lives. These discussions will strengthen your understanding of the economics you must know to analyze market issues and add value to your professional and personal lives.

### Target Audience

This course is for anyone who wants to understand how markets work, how people trade, and when active investment management works and fails. The reading assignments and class lectures are appropriate for students without market experience.

Experienced traders also will value this course. The economic perspectives they learn in this course can significantly improve their performance. However, students with substantial market experience have little advantage over other students other than initial familiarity with the jargon and institutions.

This course also will benefit students who want to understand the determinants of investment performance. We will discuss why some people make money while others lose money. These lessons apply to businesses in all competitive industries.

### **Prerequisites**

There are no prerequisites for this course. Familiarity with Investments, Microeconomics, Corporate Finance, Information Technologies, and Statistics is helpful, but you will not be lost if you have not studied these subjects.

<b>COURSE OBJECTIVES</b>
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### **Learning Objectives**

This course aims to develop your ability to understand, participate in, and manage trading and investment processes within various market structures. This course will help you acquire the following knowledge and skills:

- Global Objective
  - Explain and use trading terms, concepts, principles, and theories.
- Detailed Objectives
  - Explain how
    - markets operate,
    - traders behave,
    - market structure affects trader behavior, and
    - traders and trading companies lobby policymakers on market design issues.
    -

Upon successful completion of this course, students will be able to:

1. Construct optimal trading strategies to solve various problems,
2. Evaluate and motivate brokers,
3. Recognize various trading styles and determine when they will be profitable,
4. Predict who will profit from trading and who will lose,
5. Predict when and which markets will be liquid and have informative prices, and
6. Identify trading risks and manage them.

A complete and detailed list of the learning outcome statements for this course appears on Blackboard.

## COURSE MATERIALS

### Required Materials

- Larry Harris, *Trading and Exchanges: Market Microstructure for Practitioners* (New York, Oxford University Press, 2003, ISBN 0195144708). An errata sheet appears on Blackboard.
- Larry Harris, *Trading and Electronic Markets: What Investment Professionals Need to Know* (Charlottesville, The CFA Institute Research Foundation, 2015, ISBN 978-1-934667-91-0). A free PDF download is available at <https://www.cfainstitute.org/-/media/documents/book/rf-publication/2015/rf-v2015-n4-1-pdf.pdf>. The book is also available for free on Amazon Kindle.
- CFA Institute, *Standards of Practice Handbook*, Eleventh Edition (CFA Institute 2014, ISBN 978-0-938367-85-7), available for free at <https://cfainstitute.org/-/media/documents/code/code-ethics-standards/standards-practice-handbook-11th-ed-eff-July-2014-corr-sept-2014.ashx> and also available on Amazon Kindle for \$0.99.  
This handbook provides an excellent introduction to the ethical issues in trading and investment management.
- Daily access to *The Wall Street Journal*.
- You must bring a laptop computer to class every day to access Blackboard so you can do the quizzes.

### Supplemental Materials

- John Downes and Jordan Elliot Goodman, editors, *Dictionary of Finance and Investment Terms*, 10th Edition (New York: Barron's Educational Series, 2018, ISBN 978-1438010441)  
This dictionary is helpful for quickly defining financial jargon and concepts, but it is now out of print and may be a little hard to find at a reasonable price. Alternatively, you can use the Investopedia dictionary at <https://www.investopedia.com/financial-term-dictionary-4769738>.
- Richard Bookstaber, *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation*, (New York: John Wiley and Sons, Inc., 2007, ISBN 0471227277). This book provides an excellent summary of financial market risk management issues.
- Edwin Lefèvre, *Reminiscences of a Stock Operator*, (New York: John Wiley and Sons, Inc., Reprinted 1993, ISBN 0-47105970-6, first published in 1923)  
*Reminiscences* is a ghostwritten autobiography of Jesse Livermore. Livermore was a successful stock and commodity speculator who traded in the late 19th and early 20th centuries. Edwin Lefèvre was a financial reporter who interviewed Livermore for this project for two months. The text is a first-person narrative by a character called Larry Livingston, who clearly represents Jesse Livermore. The book is full of market wisdom and human wisdom. It is easy to read and engaging and covers many of the topics of this course.

### Other Course Materials

Various supplemental materials are also available on the Blackboard Course Pages. I may use a password to protect some documents. If so, the password will be TradeOn. The password is case-sensitive.

If you have questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000 or [HelpDesk@marshall.usc.edu](mailto:HelpDesk@marshall.usc.edu). Alternatively, (213) 740-5555 will get you to the USC ITS Help Desk.

## COURSE DELIVERY AND TECHNOLOGY ISSUES

### Lectures

This course will meet in person. All sessions will be recorded and made available over Blackboard.

### Blackboard

All examinations will occur online on Blackboard. Therefore, you must bring a laptop computer to class every day to access Blackboard to do the quizzes and the final examination.

I will post many course materials and announcements on Blackboard. So be sure that you can access Blackboard.

## GRADING

### OVERVIEW

<u>Assignments</u>		<u>Points</u>	<u>% of Overall Grade</u>
<b>Class Participation</b>		100	10%
<b>Group projects</b>	Two trading strategy group projects	300	30%
<b>Examinations</b>	Best 8 of 10 short quizzes	300	30%
	Final exam	300	30%
<b>TOTAL</b>		1,000	100%

Final course grades represent how you perform in the course relative to other students and my expectations for students in the course. I base course grades on each student's performance, consistent with USC and Marshall School of Business policies, not on a mandated target. I expect the grade point average for this course to be about 3.5, but I assign higher or lower grades on average based on my perception of the class's overall performance.

I consider four items when assigning class grades:

1. Your weighted-average standardized score for all exams and other exercises. Since exams inevitably vary in difficulty, I standardize the scores by subtracting the class mean and dividing the result by the class standard deviation. Then, I average these standardized scores, weighting by the contributions of each exam to the class grade. I base the standardization only on the scores of students who will receive non-failing class grades.
2. Your weighted-average exam and other exercise scores. This measure does not standardize the scores for each exam and exercise. I adjust the raw scores so that weights given to each examination reflect those in the table above.
3. Your rankings among all students in the class using the above two measures.
4. My impression of the overall achievement of the students in this class relative to that of other students in comparable classes that I have taught in the last few years or am presently teaching in other sections.

### CLASS PARTICIPATION

Class participation is a vital part of this course's learning experience. The richness of the learning experience depends mainly on the degree of preparation by all students before each class session. Your classmates and I expect you to prepare for all classes and actively participate in and meaningfully contribute to class discussions.

In-class participation is also a critical part of this course's learning experience. I will cold call on you and your classmates to encourage active participation and gain multiple perspectives and viewpoints. I will base your in-class participation grade on your demonstrated willingness to participate and the quality of the comments you express rather than their quantity. While some students are far more comfortable than others with class participation, all students should try to contribute meaningfully.

Workers often offer their opinions in group settings in their careers; thus, class participation prepares students for this business experience.

A primary course goal is to help you develop the ability to clarify your position on an issue and articulate and defend it convincingly. Sharing your views with others is crucial for learning and understanding how people debate the diverse opinions you will encounter in an organization. You will find yourself presenting and testing new ideas and assisting others in shaping their ideas. You should prepare to take risks and support others in exploring new ideas.

Effective in-class participation involves analyzing, commenting, questioning, discussing, and building on others' contributions. Do not repeat facts or monopolize class time. Presenting your ideas concisely and persuasively and responding effectively to others' ideas are essential business skills. This course will help you sharpen those skills.

You cannot contribute to in-class discussions if you are not present.

The course grade will not depend on class participation because I do not want concerns about grading to inhibit our discussions. I suggest that you evaluate your contributions using the following rubric:

**Outstanding Contribution.** Your contributions reflect considerable preparation; they are substantive and supported by evidence from the case, readings, and logic. Your comments or questions create a springboard for discussion by making a critical insight. You synthesize and build upon what has already been said in the discussion. The class learns from you when you speak; the discussions would suffer in your absence.

**Good Contribution.** You come prepared with substantiated comments. You demonstrate good insight and clear thinking. You connect to what has been said in prior discussion. The class notices when you are not part of the discussion.

**Minimal Contribution.** You participate but are unprepared. You rarely offer interesting insights into the discussion. It appears you are not listening to what others say during discussions.

**No Contribution.** You say little or nothing in class. If you were not in the class, the discussion would not suffer.

## **ASSIGNMENTS, EXAMINATIONS, AND GRADING DETAIL**

### **Trading Strategy Group Project**

You will participate in a trading strategy project. You may choose the members of your group. Each group should have no less than three or more than five members.

The project will require a short oral presentation (about 15-20 minutes) describing how to implement a trading strategy of your choice. You will receive only half credit for the project if you are not present when your group presents. Following your presentation, you will take questions and observations from your classmates and me.

Your presentation should specify the strategy, the resources and systems required to implement it, and its expected profitability. If you wish, you may supplement your presentation with a written report.

I encourage you to consult with me about your strategy before doing too much work. I also encourage you to collect whatever information you believe would help you evaluate the strategy's profitability.

Plan to make your presentations following Spring Break. We will schedule them following the third week of class.

I will post a simple example of a trading strategy report on Blackboard.

I will grade the project using the following rubric:

- |   |     |
|---|-----|
| 1. Depth of analysis—identification of relevant risk and profit issues                                    | 20% |
| 2. Quality of economic analysis of risks and potential profits  | 20% |
| 3. Quality and breadth of any supporting data analyses  | 20% |
| 4. Clarity of oral presentation   | 20% |
| 5. Insight of proposal (my expectation of the probability that the proposed strategy would be profitable) | 20% |

I will base your project grade on my evaluation of the project work and my assessment of your contribution to the group product. I will base this assessment on

1. your participation in the presentation,
2. responses to questions you answer following your presentation,
3. your team members' assessments of your contributions, and
4. your assessments of your teammate's contributions.

I also will ask you to provide a qualitative and quantitative assessment of the contributions of your team members using a questionnaire that characterizes intellectual and organizational leadership, research input, contribution to the project output, and collegiality. I also will ask you to write out the main contributions of each of your team members. After completing your project, you will submit this information to me online. An example of the peer evaluation form appears below in Appendix A.

To ensure that your evaluations are fair, you may not discuss how you will evaluate your peers with anyone except me. You should base your peer evaluations on only your impressions. In no event should you come to any agreements with your peers about how you or they will evaluate any student.

In addition to asking about your peers' contributions to the project, I will also ask about your confidence in your assessments. Accordingly, if you do not know a peer's contribution—perhaps because you were sick and did not observe the peer's contribution, you will have an opportunity to tell me that your opinion is not well-founded.

## **Examinations**

The quizzes and final examination will consist of constructed answers (essay, one-sentence, one-word) and multiple-choice questions. I structure the exams so that well-prepared students finish well before the allocated time ends. Less-prepared students generally do not feel time pressure on my exams, but most wish they spent more time studying before the exams.

The final examination date will not change. Please check now to see that you do not have any conflicts.

The final examination will be cumulative. I occasionally reuse questions from previous quizzes I gave you—especially when poor performance on an important question suggests that students did not give as much attention studying a topic as I believe it merited. Accordingly, I strongly recommend that you review your graded quizzes to ensure that you can correctly answer questions that you missed in the past.

When writing quizzes and exams, I refer only to the detailed list of the learning outcome statements posted on Blackboard. Every question on a quiz or exam will involve knowledge identified by one or more of these learning outcome statements.

I posted some old examinations with answers on Blackboard. I do not post exams with multiple-choice questions.

About a third of our class sessions will have a short quiz. Generally, I will not announce quiz dates ahead of time. Accordingly, always come prepared for class to write a short quiz. The quizzes cover topics in reading assignments for that class session or previous sessions following the last quiz day. The quiz also may include topics discussed in class since the last quiz day, including those covered on that day. Occasionally, I include questions about older topics if students did poorly in a previous quiz. I post all answers to quizzes on Blackboard after I grade them. Please ensure that you know the correct answers to the questions that you missed.

Only your top eight scores from the ten quizzes will count towards your aggregate quiz grade. If you miss a quiz for any reason, I will assign a zero for that quiz. There will be no makeup quizzes. If some constellation of events beyond your control causes you to miss more than two quizzes, bring the situation to my attention and document it. We will arrange to ensure that your grade does not suffer if I believe failing to do so would be unfair. At my sole discretion, I may give you one or more makeup quizzes, which may be written or oral, or I may gross up your score on the quizzes you completed.

### **Class Sessions and Preparation**

Some of our class sessions will be inverted. We will use the class sessions for group and class discussions, problem-solving exercises, occasional trading games, and occasional lectures. To benefit from the class sessions, you should come to class well-prepared. Read the assigned readings before class.

I will occasionally lecture on topics that do not appear in the textbook or highlight issues in the text. If these topics appear in the list of learning outcome statements, they may appear on subsequent examinations.

### **Some Comments about Work Habits**

Good discipline is a crucial attribute of successful businesspeople. Working independently toward a goal is vital to career success because supervisors often do not have the time or the desire to manage their subordinates closely. And good discipline is essential for entrepreneurs who have no supervisors.

### **Optional Homework**

If you would like the discipline of turning in homework, here is what I suggest that you do: On most class days, submit via Blackboard a short write-up explaining in your own words the knowledge referred to in three learning outcome statements (“LOSs”). The LOS list is posted on Blackboard. In that list, statements marked with a hash mark (#) are the LOSs I suggest you write up. Of course, you can write up additional LOSs. Students who have written all the LOSs in their own words usually do well in the course.

To avoid paraphrasing text from the book, I recommend writing your first draft of your write-ups while the book is closed, at least one-half hour after reading the relevant passages. Then go back to the book to confirm that you are satisfied with your explanation, and amend it, if necessary, using your own words again.

The LOSs I selected for these optional homework assignments are among the more important LOSs for this class. Note, however, that these selected LOSs do not include all the more important LOSs. While each LOS is important (I otherwise would not have included them on the list), some are more important

than others (but all may be the subject of an exam question). If you want help identifying the most important LOSs, ask me in class, during office hours, or call me.

### **Evaluation of Your Work**

I will do my best to state my expectations for the various exams and evaluate your answers as fairly and objectively as possible. However, if you feel that an error has occurred in the grading of any question, you may write me a memo requesting that I reevaluate the assignment within one week of the date that I return the exam to you. Attach the original exam to the memo and fully explain why you think I should regrade the question. Be aware that the reevaluation process can result in three possible grade adjustments: positive, none, or negative.

### **USC Marshall Critical Thinking Initiative**

The USC Marshall Critical Thinking Initiative is a school-wide effort to improve your critical thinking skills to be more successful problem solvers in class and the workplace. In this course, you will engage in many learning activities to develop and apply your critical thinking skills in a disciplined manner so that you can outperform others to get your desired job and excel further in your career. Your critical thinking ability is an important part of this course's evaluation/grading process.

<b>MARSHALL GUIDELINES</b>
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### **Marshall Grading Guidelines**

Assignment/Exam Grading Policy: As the instructor, I determine what qualifies as an accurate grade on an assignment, exam, or another deliverable, and my evaluation of the performance of each student is the final basis for assigning grades for the class. I may delegate some grading to assistants, but I remain responsible for all grades.

### **Retention of Graded Coursework**

I retain final exams and all other graded works that affect the course grade for one year after the end of the course if I have not returned the graded work to the student. If I return graded work to you, you are responsible for filing it.

### **Returned Papers**

To protect the confidentiality of your work, you must pick up your own graded paperwork. I will not give your papers to anyone else. When I return paperwork, students who miss class sessions must come to office hours or arrange an appointment to retrieve the material.

### **Marshall Technology Policy**

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated by the respective professor or staff. The use of other personal communication devices during academic or professional sessions is considered unprofessional and is not permitted. ANY e-devices (cell phones, iPads, other texting devices, laptops, I-pods) must be completely turned off during class time. Upon request, you must comply and put your device on the table in off mode and FACE DOWN. You might also be asked to deposit your devices in a designated area in the classroom. Videotaping faculty lectures is not permitted due to copyright infringement regulations. Audiotaping may be permitted if approved by the professor. Use of any recorded or distributed material is reserved exclusively for the USC students registered in this class. Exceptions to this policy may be granted to individual students with appropriate documentation on a case-by-case basis.



## **Use of Recordings**

Pursuant to the USC Student Handbook ([www.usc.edu/scampus](http://www.usc.edu/scampus), Part B, 11.12), students may not record a university class without the express permission of the instructor and announcement to the class. In addition, students may not distribute or use notes or recordings based on University classes or lectures without the express permission of the instructor for purposes other than personal or class-related group study by individuals registered for the class. This restriction on unauthorized use applies to all information that is distributed or displayed for use in relationship to the class.

## **Open Expression and Respect for All**

An essential goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one's beliefs. This course will support the values articulated in the USC Marshall "[Open Expression Statement](#)."

## **Artificial Intelligence Tools**

Unless explicitly prohibited, you may use AI tools (e.g., ChatGPT and image generation tools) in this course. Learning to use AI is an emerging skill. I welcome the opportunity to meet with you to provide guidance with these tools during office hours or after class. Keep in mind the following:

- AI tools can help you brainstorm topics or revise your written work. Good AI-based grammar checkers (for example, Grammarly) are particularly useful for revising your written texts. However, be aware that texts sent to some AI tools may not be secure. Do not send confidential texts to them.
- You will get low-quality results if you provide minimum-effort prompts to AI engines. You must refine your prompts to get good outcomes. Creating good prompts requires thoughtful work.
- Proceed with caution when using AI tools. Do not assume the information these tools provide is accurate or trustworthy. If a tool gives you a number or fact, assume it is incorrect unless you know the correct answer or can verify its accuracy using a more reliable source. You will be responsible for any errors or omissions produced by AI tools. These tools work best for topics you understand.
- You must acknowledge using AI tools. Include a paragraph at the end of any assignment that uses AI that explains how (and why) you used AI and identifies the prompts you used to obtain your results. Failure to do so is a violation of academic integrity policies.
- Be thoughtful about when AI is useful. Consider its appropriateness for each assignment or circumstance. The use of AI tools requires attribution. You must clearly attribute any material from any source you did not write.

## USC Statement on Academic Conduct and Support Systems

### Academic Integrity:

The University of Southern California is a learning community committed to developing successful scholars and researchers dedicated to pursuing knowledge and disseminating ideas. Academic misconduct, which includes any act of dishonesty in the production or submission of academic work, compromises the integrity of the person who commits the act and can impugn the perceived integrity of the entire University community. Misconduct undermines the University's mission to research, educate, and contribute productively to our community and the world.

All students must submit assignments that represent their original work. They must prepare them specifically for the course or section to which they submit them. Students may not submit work written by others or "recycle" work prepared for other courses without obtaining written permission from the instructor(s).

Other violations of academic integrity include but are not limited to, cheating, plagiarism, fabrication (e.g., falsifying data), collusion, knowingly assisting others in acts of academic dishonesty, and any act that gains or is intended to gain an unfair academic advantage.

The impact of academic dishonesty is far-reaching. Academic dishonesty is a serious offense against the University. All incidences of academic misconduct will be reported to the Office of Academic Integrity and could result in outcomes such as failure on the assignment, failure in the course, suspension, or even expulsion from the University.

For more information about academic integrity, see [the student handbook](#) or the [Office of Academic Integrity's website](#), and University policies on [Research and Scholarship Misconduct](#).

Please ask your instructor if you are unsure what constitutes unauthorized assistance on an exam or assignment or what information requires citation and/or attribution.

### Students and Disability Accommodations:

The University of Southern California welcomes students with disabilities into all its educational programs. [The Office of Student Accessibility Services](#) (OSAS) determines appropriate accommodations for students who encounter disability-related barriers. Once a student completes the OSAS process (registration, initial appointment, and submitted documentation) and OSAS determines accommodations are reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. Students must give the LOA to each course instructor and follow up with a discussion. These notifications should be made early in the semester, as accommodations are not retroactive. You can find more information at [osas.usc.edu](http://osas.usc.edu). You may contact OSAS at (213) 740-0776 or via email at [osasfrontdesk@usc.edu](mailto:osasfrontdesk@usc.edu).

### Support Systems:

[Counseling and Mental Health](#) - (213) 740-9355 – 24/7 on call

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

[988 Suicide and Crisis Lifeline](#) - 988 for both calls and text messages – 24/7 on-call

The 988 Suicide and Crisis Lifeline (formerly known as the National Suicide Prevention Lifeline) provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week, across the United States. The Lifeline is a national network of over 200 local crisis centers that provide custom local care and resources based on national standards and best practices. The

new, shorter phone number makes it easier for people to remember and access mental health crisis services (the previous 1 (800) 273-8255 number will continue to function indefinitely). It represents a continued commitment to those in crisis.

[Relationship and Sexual Violence Prevention Services \(RSVP\)](#) - (213) 740-9355(WELL) – 24/7 on-call  
Free and confidential therapy services, workshops, and training for situations related to gender- and power-based harm (including sexual assault, intimate partner violence, and stalking).

[Office for Equity, Equal Opportunity, and Title IX \(EEO-TIX\)](#) - (213) 740-5086  
Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

[Reporting Incidents of Bias or Harassment](#) - (213) 740-5086 or (213) 821-8298  
Avenue to report incidents of bias, hate crimes, and microaggressions to the Office for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.

[The Office of Student Accessibility Services \(OSAS\)](#) - (213) 740-0776  
OSAS ensures equal access for students with disabilities by providing academic accommodations and auxiliary aids under federal laws and university policy.

[USC Campus Support and Intervention](#) - (213) 740-0411  
Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

[Diversity, Equity and Inclusion](#) - (213) 740-2101  
Information on events, programs, and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

[USC Emergency](#) - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on-call  
Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

[USC Department of Public Safety](#) - UPC: (213) 740-6000, HSC: (323) 442-1200 – 24/7 on-call  
Non-emergency assistance or information.

[Office of the Ombuds](#) - (213) 821-9556 (UPC) / (323-442-0382 (HSC)  
A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

[Occupational Therapy Faculty Practice](#) - (323) 442-2850 or [otfp@med.usc.edu](mailto:otfp@med.usc.edu)  
Confidential Lifestyle Redesign services for USC students to support health-promoting habits and routines that enhance quality of life and academic performance.

## COURSE CALENDAR

### Class Sessions, Project Due Dates, and Reading Assignments

The final examination will take place as scheduled.

I may modify the topic schedule to meet the needs and interests of the class.

The topics below **correspond** to numbered chapters in the *Trading and Exchanges* textbook. The assigned readings for each date include these chapters and any other readings indicated below. The *Trading and Electronic Markets* monograph is free from the CFA Institute Research Foundation. (See required materials above.) Complete the readings before class and come prepared to discuss them.

The course meetings will involve discussions, exercises, and lectures. I will primarily reinforce and expand upon the lessons in the readings when I lecture. However, I often will not review them as I assume you have done the readings. Therefore, you must read and study the assigned readings before class.

Read the financial press every day. Come to class prepared to discuss current events in the markets. At a minimum, you must read the front page of the Money & Investing section of *The Wall Street Journal*. The business sections of the *New York Times*, *The Financial Times*, and *Investor's Daily* are also excellent. Try reading the finance section of *The Economist* and any relevant special reports. Serious professionals follow current events in their industry. Be a securities industry professional, if only for the next 16 weeks. Reading the news will help you get more out of this class.

I strongly recommend reading *Reminiscences of a Stock Operator* at your leisure. It is entertaining and fascinating. Although written a century ago, most of its themes remain relevant today.

I also strongly recommend reading Richard Bookstaber's *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation*. This book provides an excellent summary of and expands upon many of the concepts we cover in this course. Bookstaber wrote the book at a level you can understand without the benefit of this course, but you will get more out of the book after completing the first half of the course.

<b>Date</b>		<b>Topics and Assignments</b>
Jan 8	M	<b>Introduction</b> <b>Introductory Trading Games</b>  Read Chapter 1 – Introduction Read Chapter 2 – Trading Stories
Jan 10	W	<b>The Trading Industry</b>  Read Chapter 3 – The Trading Industry Read the Forward and Chapter 1 of <i>Trading and Electronic Markets</i>
Jan 15	M	<b>No Class – Martin Luther King Day</b>
Jan 17	W	<b>Orders and Order Properties</b>  Read Chapter 4 – Orders and Order Properties
Jan 22	M	<b>Order Properties</b> (continued)
Jan 24	W	<b>Market Structures</b>  Read Chapter 5 – Market Structures

<b>Date</b>		<b>Topics and Assignments</b>
Jan 29	M	<b>Introduction to Order-Driven Markets: Auction Bidding Strategies</b>  Read “Notes on Auction Bidding Strategies” Read Chapter 6 – Order-Driven Markets
Jan 31	W	<b>Order-Driven Markets</b> (continued)
Feb 5	M	<b>Brokers and Ethics in Trading</b>  Read Chapter 7 – Brokers Read pages v, and 1-12 of CFA <i>Standards of Practice Handbook</i>
Feb 7	W	<b>Why People Trade</b>  Read Chapter 8 – Why Do People Trade? Read Chapter 2 of <i>Trading and Electronic Markets</i>
Feb 12	M	<b>Good Markets</b>  Read Chapter 9 – Good Markets
Feb 14	W	<b>Informed Trading</b>  Read Chapter 10 – Informed Traders and Market Efficiency Read Chapter 3 of <i>Trading and Electronic Markets</i>
Feb 19	M	<b>No Class – President’s Day</b>
Feb 21	W	<b>Order Anticipators</b>  Read Chapter 11 – Order Anticipators
Feb 26	M	<b>Bluffing and Price Manipulation</b>  Read Chapter 12 – Bluffing and Price Manipulation
Feb 28	W	<b>Dealers</b>  Read Chapter 13 – Dealers
Mar 4	M	<b>Dealer Trading Game</b>
Mar 6	W	<b>Bid/Ask Spreads</b>  Read Chapter 14 – Bid/Ask Spreads
Mar 11	M	<b>No Class – Spring Recess</b>
Mar 13	W	<b>No Class – Spring Recess</b>
Mar 18	M	<b>Block Trading and Value-Motivated Traders Winner’s Curse Game</b>  Read Chapter 15 – Block Trading Read Chapter 16 – Value-motivated Traders Read “Winner’s Curse Mathematics”

<b>Date</b>		<b>Topics and Assignments</b>
Mar 20	W	<b>Arbitrageurs</b> Read Chapter 17 – Arbitrageurs
Mar 25	M	<b>Buy-side Traders</b> <b>Liquidity and Volatility</b> Read Chapter 18 – Buy-side Traders Read Chapter 19 – Liquidity Read Chapter 20 – Volatility
Mar 27	W	<b>Transaction Cost Measurement</b> Read Chapter 21 – Liquidity and Transaction Cost Measurement Read Chapter 4 of <i>Trading and Electronic Markets</i>
Apr 1	M	<b>Investment Performance</b> Read Chapter 22 – Performance Evaluation and Prediction
Apr 3	W	<b>Futures Trading Game</b>
Apr 8	M	<b>Index and Portfolio Markets; Designated Dealers</b> Read Chapter 23 – Index and Portfolio Markets Browse Chapter 24 – Specialists
Apr 10	W	<b>Off-Exchange Trading and Dark Pools</b> Read Chapter 25 – Internalization, Preferencing, and Crossing
Apr 15	M	<b>Competition within and among Markets</b> Read Chapter 26 – Competition within and among Markets
Apr 17	W	<b>Electronic Trading</b> Read Chapter 27 – Floor versus Automated Trading Systems Electronic and High-Frequency Trading Read Chapters 5-7 of <i>Trading and Electronic Markets</i>
Apr 22	M	<b>Extreme Volatility</b> Read Chapter 28 – Bubbles, Crashes, and Circuit Breakers Read Appendix A of <i>Trading and Electronic Markets</i>
Apr 24	W	<b>Insider Trading and Review</b> Read Chapter 29 – Insider Trading
May 3	F	<b>Final Examination</b> , 8:00 a.m. – 10:00 a.m.
May 10	F	University Commencement

## CONTACT INFORMATION

### Addresses and Telephone Numbers

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You may call me anytime between 7:00 a.m. and 9:30 p.m. I probably won't answer on Friday night or Saturday.

### How to Reach Me

1. Drop-in during office hours—no appointment is necessary. I will keep office hours in person in my office and on Zoom at <https://usc.zoom.us/j/4657329913>. Call me if you cannot find me on Zoom, and I'll open the Zoom session.

My office hours this semester are:

Mondays	2:00 p.m. – 3:00 p.m.
Tuesdays	2:00 p.m. – 3:00 p.m.
Fridays	1:30 p.m. – 2:30 p.m.

2. Arrange to meet me by appointment.
3. Call me on the telephone. You may call anytime between 7:00 a.m. and 9:30 p.m., but I probably won't answer on Friday night or Saturday. If I do not answer and you want to leave a message, please email me. I rarely check for voice or text messages.
4. Arrange to dine with me before or after class. Consider inviting your classmates too.
5. Send me an email at [LHarris@USC.edu](mailto:LHarris@USC.edu). While I am always happy to answer course topics, I prefer to respond orally rather than by email. The opportunity to listen and respond appropriately usually produces more effective learning.

It is better to email me than to text me.

## Appendix A

### Sample Peer Input Form

I assign grades for individual student contributions to the team project based on my observations of the team's working dynamics and thoughtful consideration of the information provided through your peer evaluations.

#### Peer Input/Evaluation Form

*Complete one form for each of your teammates/group members, including yourself. I will email a full set of forms for you to complete. Please submit only the completed electronic version that I send you.*

<b>Name of group member:</b>	<i>Assess your teammate's contributions on a scale of 1-5 (5 is excellent)</i>	<i>How confident are you in your assessment on a scale of 1-5 (5 is highly confident)</i>
Regularly attended and engaged in team meetings		
Asked important questions		
Listened to and acknowledged suggestions from everyone		
Made valuable suggestions		
Took initiative to lead and organize discussions and tasks		
Contributed to research for the assignment		
Contributed to writing the assignment		
Reliably completed tasks on time in a quality manner		
Demonstrated commitment to the team by effort		
Was cooperative and worked well with others		
I would want to work with this team member again		
Describe your teammate's (or your) contributions to the assignment:		
How might your teammate (or you) have made <b>more effective</b> contributions to the assignment?		
Your name:		Date: