

Quantitative Finance > Trading and Market Microstructure

Schizophrenic Representative Investors

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Representative investors whose behaviour is modelled by a deterministic finite automaton generate complexity both in the time series of each asset and in the cross-sectional correlation when the rule governing their behaviour is schizophrenic, meaning the investor must hold multiple seemingly contradictory beliefs simultaneously, either by switching between two different rules at each time step, or computing different responses to different assets.

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