

The Use of Agent-Based Financial Market Models to Test the Effectiveness of Regulatory Policies

By Frank H. Westerhoff, Bamberg*

JEL G15, G18

Financial markets, technical and fundamental analysis, transaction taxes, central bank interventions, trading halts.

Summary

Models with heterogeneous interacting agents have proven to be quite successful in the past. For instance, such models are able to mimic the dynamics of financial markets quite well. The goal of our paper is to explore whether this approach may offer new insights into the working of certain regulatory policies such as transaction taxes, central bank interventions and trading halts. Although this strand of research is rather novel, we argue that agent-based models may be used as artificial laboratories to improve our understanding of how regulatory policy tools function.