



Asper Research Webinar Series

Competition and Product Quality: Fake Trading on Crypto Exchanges

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Zoom Webinar

How competition affects product quality and how product quality choices impact firms' operating performance are open empirical questions. We use a setting that is especially suitable to answering these questions: cryptographic exchanges, on which product quality is inversely related to fake (inflated) trading volume. We find that both static and dynamic competition measures are positively associated with fake trading, indicating that competition may lead to reduced product quality. Exchanges that inflate trading volume succeed in misleading investors in the short run but are punished in the long run, consistent with the tradeoff between short-lived increases in rents and future losses due to damaged reputation.