Erratum to “Circuit breakers and market volatility: A theoretical perspective,”

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by

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This note corrects an expression in “Circuit breakers and market volatility: A theoretical perspective,” *Journal of Finance* 49 (1994): 237-254. None of the basic intuition is affected. I am grateful to Xiaoxia Ye of the Stockholm School of Economics for pointing the issue out. On p. 244, line 3, the expression should be \( E[(P_{2d} - F)2l] = 4\lambda_{2d}\sigma_l^2 \).

With this correction, Proposition 2 still holds, but conditionally. The additional condition is that \( 4\lambda_{2d} > \lambda_1 s + \lambda_2 s + \lambda_{12} s \). This condition holds under a wide parameter range. For example, when \( n = 0 \), it always holds, and generally holds when risk aversion \( R \) is large.\(^1\) Similarly, Propositions 3 and 4 hold under the additional condition that the left hand side of (13) is larger than

\[
4\lambda_{2d}\sigma_l^2 \left[ 1 - N\left( \frac{\rho_1 - \bar{F}}{\text{std}(P_{1d})} \right) - N\left( \frac{\bar{F} - \rho_2}{\text{std}(P_{1d})} \right) + N\left( \frac{\rho_1 - \bar{F}}{\text{std}(P_{1d})} + N\left( \frac{\bar{F} - \rho_2}{\text{std}(P_{1d})} \right) \right) \right].
\]

Intuitively, the above condition and condition (13) simply mean that the expected cost of concentrating trades in period 1 is smaller than the expected costs of either splitting trades or concentrating trades in period 2.