

Discussion of "Cryptocurrency Pump-and-Dump Schemes" by Li, Shin and Wang

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P&Ds in the cryptocurrency markets

- lead to short-term (within minutes) bubbles
- imply significant wealth transfers between insiders and outsiders

DID on Bittrex ban on P&D \Rightarrow P&Ds detrimental to liquidity and price

As a study of the cryptocurrency markets

- helps address recent debates over cryptocurrency regulation

As a study of price manipulation

- a better setting for studying P&D than stock markets
- shorter duration \Rightarrow little change in asset fundamentals

Overall, a very interesting paper!

Puzzle: Why disadvantaged outsiders participate?

Short duration of P&D, most initial effects disappear after P&D

- non-participant may not lose much
- zero-sum game

Overconfidence, gambling preference?

Suggestion: take advantage of variations in more dimensions observable in data!

- It takes time for outsiders to realize that they constantly lose in P&Ds?
 - Patterns observed mainly driven by earlier P&Ds?
 - Magnitude and profitability of P&D decay over time?
 - Most members do not actually participate (Xu and Livshits 2018)
- Compare earlier and later P&Ds at the same venue
 - Over 4 years of available data

Coins with what characteristics

- are more likely to be P&D? (e.g., Xu and Livshits 2018)
 - Discrete choice model regressions on all coins
- generate P&Ds with stronger observed patterns?
 - volatility, trading volume, profitability, etc.

Coins traded at which exchange

- are more likely to be P&D?
 - Discrete choice model regressions on all coins traded on the exchanges covered, controlling for coin characteristics
- generate P&Ds with stronger observed patterns?
 - volatility, trading volume, profitability, etc.

Triangular Arbitrage?

- Participating outsiders are informationally disadvantageous relative to insiders, but advantageous relative to others
- May thus take advantage of others in triangular arbitrage
 - e.g., among the P&D coin, BTC and ETH
 - outsiders may lose in the trade $BTC \longleftrightarrow P\&D \text{ coin}$, but may gain from $P\&D \text{ coin} \longleftrightarrow ETH \longleftrightarrow BTC$
- Could move forward on your spillover results
 - Existence of such arbitrage opportunities?
 - Opportunities exploited?