



Department of Humanities and Social Sciences Seminar Series  
Indian Institute of Technology Guwahati

# Can Limits of Arbitrage explain Bounded Rationality among Speculative Traders in Foreign Exchange Markets?

**Soumya Datta**

Date: Friday, 07 April 2017  
Time: 4 pm  
Venue: Seminar Room, HSS

In a purely deterministic continuous-time model, we examine whether limits of arbitrage can explain bounded rationality among speculative traders in foreign exchange markets. The rate of exchange depends on a combination of fundamental factors and speculative behavior by heterogeneous agents in foreign exchange markets. However, given that our focus is primarily on speculators, we keep the determination of fundamentals outside the scope of our model. We find that unlike popular perception in the literature, introduction of limited arbitrage does not necessarily increase the possibilities of deviation from the fundamentals. In fact, despite possibilities of sunspots, under certain conditions limits of arbitrage increase the stability of the fundamental equilibrium, and hence strengthen efficient market hypothesis.

## **About the Speaker**

Soumya Datta teaches at the Faculty of Economics, South Asian University, New Delhi. He received his doctoral degree from the Centre for Economic Studies & Planning, Jawaharlal Nehru University, New Delhi in 2011. His doctoral work explored applications of Kolmogorov-Lotka-Volterra class of models in macrodynamics of financing investment. His research interest lies broadly in the area of macroeconomic theory and complex systems. His current research work focuses on growth cycles, financial crises, asset price bubbles and heterogeneous agent models.