

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

*Journal of Finance* 49 (1994), 237-254

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  $4\lambda_{2d} > \lambda_{1s} + \lambda_{2s} + \lambda_{12s}$ . 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.<sup>1</sup> Similarly, Propositions 3 and 4 hold under the additional condition that the left hand side of (13) is larger than

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

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.

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<sup>1</sup>The correction also applies to Lemma 1 in “On rules versus discretion in procedures to halt trade,” *Journal of Economics and Business* 47 (1995): 1-16.