Gamma: Risks and Rewards of Financialisation.
Volatility and Market Liquidity in 18th Century British Financial Markets.

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Abstract: This paper provides the first micro-level empirical test of Brunnermeier and Pedersen's (2009) market and funding liquidity model in a pre-twentieth-century setting, using granular transaction-level data from the full population of British financial market participants from 1694 to 1827. The central question is how financialisation of household balance sheets simultaneously generated the risks (asset price volatility) and the rewards (secondary market liquidity) that together produced the world's first financial safe asset.

The empirical foundation is the Financial Lives of the British (FLB) dataset: an estimated 50 million individual transactions between more than 500,000 named market participants. Market participants are classified into three typologies: investors, speculators, and broker-dealers (jobbers). The evolving roles of these three types of market participants are central to the paper's argument: that the emergence of jobbers as dedicated liquidity providers was the structural mechanism through which Consols acquired safe asset status, and that this same mechanism introduced the funding liquidity fragility that made markets susceptible to the spirals Brunnermeier and Pedersen describe.

The paper constructs daily volatility time series across four asset classes from the complete Course of the Exchange, and a novel market liquidity index from FLB transaction-level volume and frequency data. These measures are used to test Brunnermeier and Pedersen's core predictions: mutual reinforcement of market and funding liquidity, non-linear regime transitions, and flight-to-quality reallocation. Empirical strategy combines panel regressions, a liquidity-adjusted CAPM test following Acharya and Pedersen (2005), and two flight-to-quality event studies: the South Sea Bubble of 1720 and the Bank Restriction Act of 1797. A trading network analysis maps jobber centrality and intermediation over time.

The historical setting provides identification advantages unavailable in modern data: no quantitative easing, no modern financial regulation, and war finance as an exogenous shifter of safe asset supply. Britain's long eighteenth century is the origin market for modern capital markets; the FLB provides individual-level data for that market in its entirety.

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