

Please contact the author (Eiichiro Kazumori) for questions and also for the full paper. Thank you very much for your understandings.

On the Virtue of Being Regular and Predictable: A Structural Analysis of the Primary Dealer System in the United States Treasury Auctions

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ABSTRACT

We analyze the policy question of whether the US Treasury should maintain the current security distribution mechanism of the primary dealer system in the Treasury market to achieve the debt management objective of lowest funding cost over time. We study the data of 3790 auctions of Treasury securities issued between May 2003 and February 2018 (gross total issuance: \$100.5 trillion). We identify potential increases in auction high rate volatilities due to decline in primary dealer activities to be a potential policy concern. Then we compare the effectiveness of the primary dealer system, the direct bidding system, and the syndicate bidding system to address this concern using the novel asymptotic approximation method that does not depend on equilibrium selection and normality of bidder values distribution. We find that the primary dealer system achieves significantly lower funding cost volatilities while maintaining an equal level of costs, thus contributes to the debt management objective.