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Yihren Wu* (yihren.wu@hofstra.edu). *The Information Content of Volatility Demand*. Preliminary report.

This study derives a vega-weighted demand for volatility by modifying the approach of Ni, Pan, and Poteshman (2008). We show that the volatility demand can be estimated through a simple approximation that uses only the aggregate trading volumes of put and call options, for instance S&P 500 options. Instead of predicting the directional changes of volatility, we focus on determining whether the volatility demand has information content on the volatility of volatility. Our empirical results show that estimated volatility demand has significant non-directional volatility information, which could be realized directly by trades on VVIX. The changes in volatility demand have incremental effects on the changes in the future volatility of volatility, after controlling for other factors. Since our volatility demand is derived based on public information, the economic source of this predictability could be traced by both information advantage and market inefficiency, which possesses more practical implications than Ni, Pan, and Poteshman (2008), whose analyses depend on non-public information. (Received September 15, 2016)