The (Mis)use of Information in Decentralised Markets

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Abstract

I study whether allocative efficiency in a decentralised market for a common value asset increases with (i) more buyers, each with a signal, (ii) better-informed buyers. Both increase the information available in the market, but also the adverse selection buyers are exposed to. With more buyers, trade surplus eventually increases and converges to the full-information upper bound if and only if buyers' signals have unbounded likelihood ratio at the top. Otherwise, it eventually decreases and converges to the no-information lower bound. With better-informed buyers, trade surplus decreases if information is about a seller they would have rejected—unless adverse selection is irrelevant. It increases if information is about about a seller they would have accepted. This yields a sharp characterisation when signals are binary: surplus from trade increases with stronger good news, but eventually decreases with stronger bad news.

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