

The (Mis)use of Information in Decentralised Markets

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November 2, 2024

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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, surplus from trade eventually increases and converges to the full-information upper bound 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, surplus from trade decreases if information helps buyers reconsider trading—unless adverse selection is irrelevant. It increases if information helps them reconsider rejecting. For binary signals, this yields a sharp characterisation: surplus from trade increases with stronger good news, but eventually decreases with stronger bad news.

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I thank Ian Jewitt, Margaret Meyer, Daniel Quigley, Ludvig Sinander, Paula Onuchic, and Péter Eső for long discussions and generous guidance. I also thank Inés Moreno de Barreda, Manos Perdikakis, Alex Teytelboym, seminar audiences at the Oxford Student Micro Theory Workshop, NASMES 2024, EEA-ESEM 2024, the 2024 Paris Transatlantic Theory Workshop, and speakers at the Nuffield Economic Theory Seminar for their feedback.