

ABSTRACT

In any voluntary trading process, if agents have rational expectations, then it is common knowledge among them that the equilibrium trade is feasible and individually rational. This condition is used to show that when risk-averse traders begin at a Pareto optimal allocation (relative to their prior beliefs) and then receive private information (which disturbs the marginal conditions), they can still never agree to any non-null trade. On markets, information is revealed by price changes. An equilibrium with fully revealing price changes always exists, and even at other equilibria the information revealed by price changes “swamps” each trader’s private information.

<http://people.stern.nyu.edu/lpederse/courses/LAP/papers/Information,Fundamental/Milgrom%20and%20Stokey.pdf>