

Abstract

This paper considers imperfectly competitive trading of a divisible asset in an informationally asymmetric market with resale opportunity, where informed dealers purchase the asset from its issuer and resell it to their uninformed customers. To analyze welfare effects of disclosing public information in such a market, I propose a tractable model based on the workhorse linear-Gaussian model for uniform-price auctions. Publicizing dealer-average information affects the customers' inference about their unknown asset value directly. It, in turn, changes their trading aggressiveness and affects the dealers' price impacts indirectly. The public information disclosure can be both beneficial and detrimental to welfare, depending on the relative informativeness of dealers' private information from the customers' perspective. The indirect price impact effects are critical in these welfare results.

Keywords

price impact/market power, uniform-price auction, public information disclosure