Efficient Bilateral Trade

[Abstract] *

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ABSTRACT

We re-examine the canonical question of [1] whether two parties can trade an indivisible good in a Pareto efficient way when they are both privately-informed about their valuations for the good. Relaxing the assumption that utilities are quasi-linear, we show that efficient trade is generically possible if agents' utility functions are not too responsive to private information. In natural examples efficient trade is possible even when agents' utility functions are highly responsive to their private information. The analysis relies on new methods we introduce.

Categories and Subject Descriptors

D61 [**Allocative Efficiency; Cost-Benefit Analysis**]: analytical studies about issues related to allocative efficiency; D82 [**Asymmetric and Private Information; Mechanism Design**]: studies about a wide spectrum of topics related to asymmetric and private information, including mechanism design; C72 [**Noncooperative Games**]: issues related to noncooperative games; C78 [**Bargaining Theory; Matching Theory**]: issues related to bargaining theory.

General Terms

Efficient Trade, Mechanism Design, Bilateral Bargaining, Risk-Aversion, Wealth Effects

Keywords

efficient trade, mechanism design, bilateral bargaining, risk-aversion, wealth effects

*This is the abstract of the paper *Efficient Bilateral Trade* available at `http://pycia.bol.ucla.edu/garratt-pycia-trade.pdf`

†The views expressed in this abstract are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

1. ACKNOWLEDGMENTS

For their comments, we would like to thank Andrew Atkeson, Larry Ausubel, Simon Board, Peter Cramton, Erik Eyster, Srihari Govindan, Peter Hammond, Hugo Hopenhayn, Igor Kopylov, Moritz Meyer-ter-Vehn, Ichiro Obara, Jim Peck, John Riley, Ronny Razin, Stergios Skaperdas, Tayfun Sonmez, Guofu Tan, Tom Wilkening, Steven Williams, William Zame, and the audiences at SWET 2014, LSE, UCL, NBER Decentralization Conference 2014, SING 2014, UCLA, Rochester, BC, the Bank of England, Amherst, NEGT 2014, Rutgers, LA Theory Conference 2014, UC Irvine, Duke-UNC, MIT-Harvard, U of Maryland, and the Canadian Economic Theory Conference 2015.

2. REFERENCES

[1] R. B. Myerson and M. A. Satterthwaite. Efficient mechanisms for bilateral trading. *Journal of Economic Theory*, 29(2):265–281, 1983.

AMMA 2015, August 08-09, Chicago, United States

DOI 10.4108/eai.8-8-2015.2260906