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Prices, Delay, and the Dynamics of Trade

John Wooders University of Arizona Diego Moreno Universidad Carlos III de Madrid

Abstract

We characterize the dynamics of trading patterns and market composition when trade is bilateral, finding a trading partner is costly, prices are determined by bargaining, and preferences are private information. We show that equilibrium is inefficient and exhibits delay as sellers price discriminate between buyers with different values. As frictions vanish, transaction prices are asymptotically competitive and the welfare loss of inefficient trading approaches zero, even though the trading patterns continue to be inefficient and delay persists.

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John Wooders
University of Arizona
jwooders@bpa.arizona.edu

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