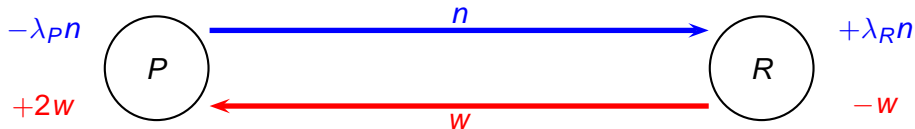


Liquidity and Information: An Experimental Study

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Summary



- SI: $\lambda_P = \lambda_R = 1$
- SU: $\lambda_P = \lambda_R = \pi$
- AS: $\lambda_P \in \{0, 1\}$ and $\lambda_R = \beta(w, n)$
- Also MH and L

Summary

- Flexible and simple model \Rightarrow Simple experimental design that can encompass many situations
- General theme: frictions about the means of exchange (n)
 - Money
 - OTC markets
- Exploring outcomes in the lab, comparing with theory

Issues

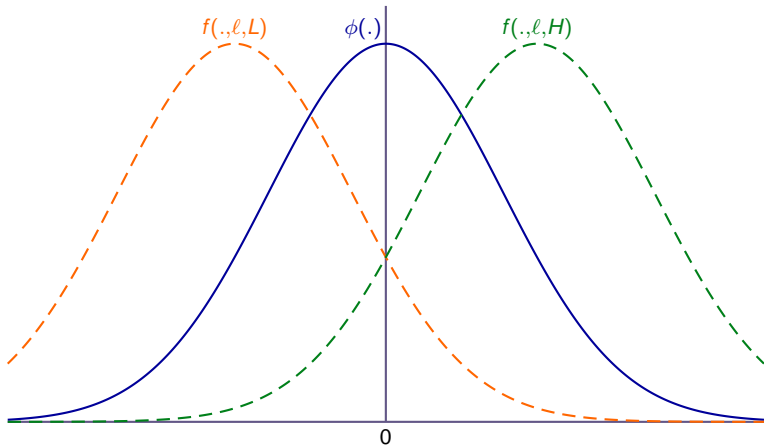
- Are lab experiment useful to study real markets: what can we learn?
- Theory and experiments – learnability of equilibrium:
 - We know that NE predictions work relatively well in the lab if we allow for some learning phase
 - But here, multiplicity and refinements. May require a longer learning phase: for example undefeated equilibria, the proposers need to make out of equilibrium proposals, and the receivers need to reassess their beliefs. (Communication may help too)
- Fairness: a relevant feature in the lab. Captures splitting of the surplus... but splitting in real markets is more likely due to the rules of interaction, or outside options.
 - Heterogeneity in θ : leads to different results, explains rejections but not variations in offers in SI.

Results:

- Predictions differ slightly from the theory.
- Learning? Differences between first and last rounds?
- A prediction from the theory that holds well: no difference between SU and AS (at least under undefeated equilibria).
- Pooling equilibria.

Digression on Complexity and Obfuscation

- AS case. Suppose that P must disclose information about the report: choose (w, n) and $1/\ell$ (level of complexity)
- By making the security more complex, P can make the signal generated about n less good



Conjectures

- If π is high, for fixed (w, n) we can show that the high type optimal pooling equilibrium can lead to maximal complexity (obfuscation).
- Is it the case when there is flexibility of offers (w, n) as well?
- What about SU (the proposer chooses the complexity before knowing his type)? (Intuition, if maximal complexity in the first case should be true as well with SU).