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Hervé Crès, Mich Tvede

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Regulation of trades based on differences in beliefs *

Hervé Crès[†]

Mich Tvede[‡]

Abstract

Some trades based on differences in beliefs might cause more harm than good. Should they be restricted? If yes, how? We propose three properties ensuring that regulation does not prevent beneficial trade and is consistent: *Unanimity* – the regulator should not object to trades with identical beliefs; *Merge-Proofness of Autarky* – if the regulator does not object to finitely many unrelated trades, all with identical beliefs, then it should not object to the mere juxtaposition of the trades; and *Independence of Irrelevant Trade* – if the regulator does not object to the juxtaposition of two unrelated trades, then it should not object to any of the two trades standing alone. We show that there is a unique policy having these three properties, namely laissez-faire.

Keywords Heterogeneous Beliefs · Pareto Efficiency · Regulation · Speculative Trading

JEL Classification D51 · D69

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[†]New York University in Abu Dhabi, PO Box 129188 Abu Dhabi, United Arab Emirates, email: herve.cres@nyu.edu

[‡]University of East Anglia, Norwich, NR4 7TJ, UK, email: m.tvede@uea.ac.uk

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