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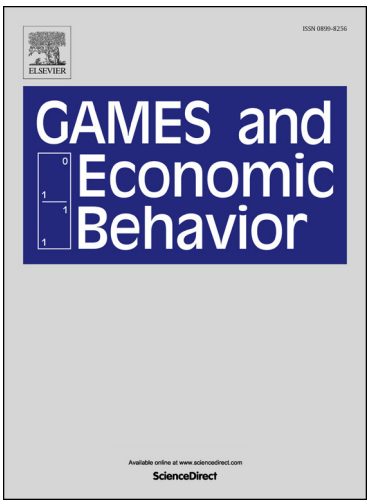

Bilateral trading and incomplete information: Price convergence in a small market

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Bilateral trading and incomplete information: Price convergence in a small market.

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Abstract

We study a model of decentralised bilateral interactions in a small market where one of the sellers has private information about her value. In addition to this seller with private information, there are two identical buyers and another seller, whose valuation is commonly known to be in between the two possible valuations of the seller with private information. We consider an infinite horizon game with simultaneous one-sided offers and simultaneous responses. We construct one particular PBE of the game and show that, as the discount factor goes to 1, prices in all transactions converge to the same value. We then show that this is the case with *any* stationary equilibrium of the game. That is, the asymptotic outcome is *unique* across all stationary equilibria.

JEL Classification Numbers: $C78$, $D82$

Keywords: Bilateral Bargaining, Incomplete information, Outside options, Coase conjecture.

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