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# Imperfect Information Transmission and Adverse Selection in Asset Markets

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## Abstract

This paper studies asset markets where owners of assets do not inherit private information from previous owners after a transaction and must learn about asset quality over time. Instantaneous learning by owners maximizes the number of owners with private information, but also maximizes the trading volume and welfare. This result is contrary to the traditional view that information asymmetry hurts trade efficiency. Public disclosure of information is not always optimal and its welfare implication depends crucially on the source of gains from trade.

JEL Classification Numbers: C73, C78, D82, D83, L15.

Keywords: adverse selection; information transmission; learning;

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