October 14, 2024
2:00pm-3:00pm
KAP 414

Prof. Scott Robertson
(Boston University)

Rational Expectations Equilibrium with Optimal Information Acquisition

Abstract: In this talk, we establish equilibrium in the presence of heterogenous information. In particular, there is an insider who receives a private signal, as well as uninformed agents with no private signal, and noise traders with price-inelastic demand. The novelty of the current work is that we allow the insider to decide (optimally) when to acquire the private signal. This endogenizes the entry time and stands in contrast to the existing literature which assumes the signal is received at the beginning of the period. Allowing for optimal entry also enables us to study what happens before the insider enters with private information, and how the possibility for future information acquisition both affects current asset prices and creates demand for information related derivatives. Results are valid in continuous time, when the private signal is a noisy version of the assets' terminal payoff (the terminal value of an Ornstein Uhlenbeck diffusion), and when the quality of the signal depends on the entry time. This is joint work with Jerome Detemple and Nikos Vingos, both of Boston University.

Zoom Link: USC Math Finance Colloquium

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