

Incentive Compatibility: Everywhere vs. Almost Everywhere*

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Abstract

A risk neutral buyer observes a private signal $s \in [a, b]$, which informs her that the mean and variance of a normally distributed risky asset are s and σ_s^2 respectively. She then sets a price at which to acquire the asset owned by risk averse “outsiders”. Assume $\sigma_s^2 \in \{0, \sigma^2\}$ for some $\sigma^2 > 0$ and let $\mathbb{B} = \{s \in [a, b] \mid \sigma_s^2 = 0\}$. If $\mathbb{B} = \emptyset$, then there exists a fully revealing equilibrium in which trade occurs. If $\mathbb{B} \neq \emptyset$, no such equilibrium can exist, even if \mathbb{B} is of measure zero.

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