

## *Dynamic Adverse Selection and the Size of the Informed Side of the Market*

Emilio Bilancini, Leonardo Boncinelli

In this paper we examine the problem of dynamic adverse selection in a stylized market where the quality of goods is a seller's private information. We show that in equilibrium all goods can be traded if a simple piece of information is made publicly available: the size of the informed side of the market. Moreover, we show that if exchanges can take place frequently enough, then agents roughly enjoy the entire potential surplus from exchanges. We illustrate these findings with a dynamic model of trade where buyers and sellers repeatedly interact over time. More precisely we prove that, if the size of the informed side of the market is a public information at each trading stage, then there exists a weak perfect Bayesian equilibrium where all goods are sold in finite time and where the price and quality of traded goods are increasing over time. Moreover, we show that as the time between exchanges becomes arbitrarily small, full trade still obtains in finite time -- i.e., all goods are actually traded in equilibrium -- while total surplus from exchanges converges to the entire potential. These results suggest two policy interventions in markets suffering from dynamic adverse selection: first, the public disclosure of the size of the informed side of the market in each trading stage and, second, the increase of the frequency of trading stages.