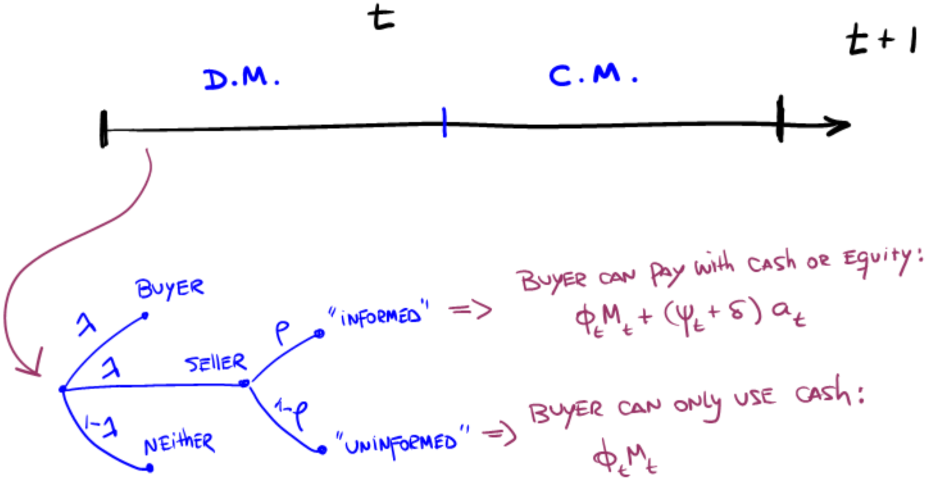
Discussion of Lester, Postlewaite and Wright's "Information, Liquidity and Asset Prices"

Ricardo Lagos

New York University


t
t+1
D.M.
C.M.
BUYER
λ
λ
SELLER
1-λ
NEITHER
ρ
"INFORMED"
1-ρ
"UNINFORMED"
=>
BUYER CAN PAY WITH CASH OR EQUITY:
$\phi_t M_t + (\psi_t + \delta) a_t$
=>
BUYER CAN ONLY USE CASH:
$\phi_t M_t$

$$\psi_t = \beta L^a_{t+1}\left[\psi_{t+1} + \delta\right]$$
$$\phi_t = \beta L^m_{t+1}\phi_{t+1}$$

$$L^a_{t+1} \equiv 1 + \lambda\rho\left[\ell\left(q^2_{t+1}\right) - 1\right]$$
$$L^m_{t+1} \equiv L^a_{t+1} + \lambda(1-\rho)\left[\ell\left(q^1_{t+1}\right) - 1\right]$$

$$\ell\left(q^i_t\right) - 1 = \frac{u'\left(q^i_t\right)}{z'\left(q^i_t\right)} - 1 \geq 0, \text{ “}=\text{” if } q^i_t = \tilde{q}$$

In eq.: $q^1_t = q\left(\phi_t M_t\right)$ and $q^2_t = q\left(\phi_t M_t + \left(\psi_t + \delta\right)A\right)$

where $q(x) \equiv \min\left\{z^{-1}(x), \tilde{q}\right\}$ and $z(q)$ given by bargaining

$$\begin{aligned} \psi_t &= \beta L^a_{t+1}\left[\psi_{t+1}+\delta\right] \\ \phi_t &= \beta L^m_{t+1}\phi_{t+1} \end{aligned}$$

$$\begin{aligned} L^a_{t+1} &\equiv 1+\lambda\rho\left[\ell\left(q^2_{t+1}\right)-1\right] \\ L^m_{t+1} &\equiv L^a_{t+1}+\lambda\left(1-\rho\right)\left[\ell\left(q^1_{t+1}\right)-1\right] \end{aligned}$$

$$\ell\left(q^i_t\right)-1=\frac{u'\left(q^i_t\right)}{z'\left(q^i_t\right)}-1\geq 0,\ \text{“}=\text{” if } q^i_t=\tilde{q}$$

In eq.: $q^1_t = q\left(\phi_t M_t\right)$ and $q^2_t = q\left(\phi_t M_t + \left(\psi_t+\delta\right)A\right)$

where $q\left(x\right)\equiv \min\left\{z^{-1}\left(x\right),\tilde{q}\right\}$ and $z\left(q\right)$ given by bargaining

$$\psi_t = \beta L^a_{t+1}\left[\psi_{t+1}+\delta\right]$$
$$\phi_t = \beta L^m_{t+1}\phi_{t+1}$$

$$L^a_{t+1} \equiv 1+\lambda\rho\left[\ell\left(q^2_{t+1}\right)-1\right]$$
$$L^m_{t+1} \equiv L^a_{t+1}+\lambda\left(1-\rho\right)\left[\ell\left(q^1_{t+1}\right)-1\right]$$

$$\ell\left(q^i_t\right)-1=\frac{u'\left(q^i_t\right)}{z'\left(q^i_t\right)}-1\geq 0,\ \text{“=” if } q^i_t=\tilde{q}$$

In eq.: $q^1_t = q\left(\phi_t M_t\right)$ and $q^2_t = q\left(\phi_t M_t + \left(\psi_t+\delta\right)A\right)$

where $q\left(x\right)\equiv \min\left\{z^{-1}\left(x\right),\tilde{q}\right\}$ and $z\left(q\right)$ given by bargaining

$$\begin{aligned} \psi_t &= \beta L^a_{t+1}\left[\psi_{t+1}+\delta\right] \\ \phi_t &= \beta L^m_{t+1}\phi_{t+1} \end{aligned}$$

$$\begin{aligned} L^a_{t+1} &\equiv 1+\lambda\rho\left[\ell\left(q^2_{t+1}\right)-1\right] \\ L^m_{t+1} &\equiv L^a_{t+1}+\lambda\left(1-\rho\right)\left[\ell\left(q^1_{t+1}\right)-1\right] \end{aligned}$$

$$\ell\left(q^i_t\right)-1=\frac{u'\left(q^i_t\right)}{z'\left(q^i_t\right)}-1\geq 0,\ \text{“}=\text{” if } q^i_t=\tilde{q}$$

In eq.: $q^1_t = q\left(\phi_t M_t\right)$ and $q^2_t = q\left(\phi_t M_t + \left(\psi_t+\delta\right)A\right)$

where $q\left(x\right)\equiv \min\left\{z^{-1}\left(x\right),\tilde{q}\right\}$ and $z\left(q\right)$ given by bargaining

1. Introduction promises a theory of differential liquidity

1. Introduction promises a theory of differential liquidity
   - The theory is: Every agent can instantaneously produce a worthless equity share at zero cost, so the $1 - \rho$ fraction of "uninformed" sellers do not accept shares.

1. Introduction promises a theory of differential liquidity
    - The theory is: Every agent can instantaneously produce a worthless equity share at zero cost, so the $1-\rho$ fraction of "uninformed" sellers do not accept shares.
    - Question: When is a *story* the same as a *theory*?

1. Introduction promises a theory of differential liquidity
    - The theory is: Every agent can instantaneously produce a worthless equity share at zero cost, so the $1 - \rho$ fraction of "uninformed" sellers do not accept shares.
    - Question: When is a *story* the same as a *theory*?
2. Proposition 1 (characterization of equilibrium) and Proposition 2 (effects of liquidity on equity price and return)

1. Introduction promises a theory of differential liquidity
   - The theory is: Every agent can instantaneously produce a worthless equity share at zero cost, so the $1-\rho$ fraction of "uninformed" sellers do not accept shares.
   - Question: When is a *story* the same as a *theory*?
2. Proposition 1 (characterization of equilibrium) and Proposition 2 (effects of liquidity on equity price and return)
   - Comment: maybe these liquidity considerations could give us a new angle on the *stock-return/inflation puzzle*?
     e.g., Fama and Schwert (1977)

- Endogenous ρ is both interesting, and new in this literature

  Maybe the whole paper should be about that...

  - Elaborate on the idea that what looks like a cash-in-advance constraint is not policy invariant
  - As you mention, some people have done this in CIA models...could you get something new or different?

- Endogenous ρ is both interesting, and new in this literature

  Maybe the whole paper should be about that...

  - Elaborate on the idea that what looks like a cash-in-advance constraint is not policy-invariant

  - As you mention, some people have done this in CIA models... could you get something new and different?

- Endogenous ρ is both interesting, and new in this literature

  Maybe the whole paper should be about that...

  - Elaborate on the idea that what looks like a cash-in-advance constraint is not policy-invariant
  - As you mention, some people have done this in CIA models...could you get something new or different?

- Endogenous ρ is both interesting, and new in this literature

  Maybe the whole paper should be about that...

  - Elaborate on the idea that what looks like a cash-in-advance constraint is not policy-invariant
  - As you mention, some people have done this in CIA models...could you get something new or different?

- Endogenous ρ is both interesting, and new in this literature

  Maybe the whole paper should be about that...

  - Elaborate on the idea that what looks like a cash-in-advance constraint is not policy-invariant
  - As you mention, some people have done this in CIA models...could you get something new or different?