Market for Information: Experimental Evidence

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Predictions of the noisy rational expectations equilibrium (REE) model are found to be relatively accurate for both asset and information markets in the laboratory. When information about an asset’s uncertain dividend is sold to a fixed number of highest bidders, prices, allocations, efficiency, and distribution of profit predictions of the full revelation REE model in the asset market dominate the predictions of the Walrasian model; demand for information shifts to the left and its price declines close to zero. When the price of information is fixed at a relatively high level, the number of informed agents and the informativeness of the asset market tends to adjust to permit the informed agents to recover their investment in information.

This paper presents the results of an empirical test of the proposition that in a competitive market equilibrium, asset prices reveal information in such a way that net returns to production of information are zero. The test is conducted in laboratory markets for a one-period asset. Theoretical models, e.g., Grossman and Stiglitz (1980), suggest that an equilibrium level of noise in asset markets must permit the producers of costly information to recover their costs by allowing them to earn greater than normal gross profits if production of costly information is to persist. These predictions of the noisy rational expectations equilibrium model about markets for assets and information are generally supported by the data.

The idea that market prices are not merely determined by endowments and preferences of traders but also, in part, determine these preferences has received much attention from economic theoreticians during recent years.