

Markets for Information: Of Inefficient Firewalls and Efficient Monopolies *

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Abstract

In this paper we study, within a formal model, market environments where information is costly to acquire and is of use also to potential competitors. Agents may then sell, or buy, reports - of unverifiable quality - over the information acquired and choose the trades in the market on the basis of what they learnt. We find that, in equilibrium, information is acquired when its costs are not too high and in that case it is also sold, though reports are typically noisy. Also, the market for information tends to be a monopoly, and there is inefficiency given by underinvestment in information acquisition. Regulatory interventions in the form of firewalls, limiting the access to the sale of information to agents uninterested in trading the underlying object, only make the inefficiency worse. Efficiency can be attained with a monopolist selling differentiated information, provided entry is blocked. The above findings hold when information has a prevalent horizontal differentiation component. When the vertical differentiation element is more important firewalls can in fact be beneficial.

JEL Classification: D83, C72, G14.

Keywords: Information sale, Cheap talk, Conflicts of interest, Information Acquisition, Firewalls, Market efficiency.

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