

On the efficiency of asset markets in the directed search framework*

Shoko Nagao[†]

Abstract

In this paper, I investigate how trading frictions in asset markets affect portfolio choices, asset prices and welfare in the directed search framework. I transform the random matching model of Lagos and Rocheteau (2007) into a directed search model. I show the effects of trading frictions numerically. I also consider the efficiency of the asset allocations and show that it is constrained-efficient.

JEL Classification: G11, G12, G14, D83

Keywords: directed search, asset market, social welfare, trading delay, intermediation

*I am grateful to Yoshiro Tsutsui, Yuichi Fukuta, Masaru Sasaki, Katsuya Takii and seminar participants at Osaka University for helpful comments. All errors remain me.

[†]E-mail: hge012ns@mail2.econ.osaka-u.ac.jp