INFORMATION AND THE VALUE OF EXECUTION GUARANTEES

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In many markets, uncertainty about whether a trade is executed can be removed by paying a price premium. We use financial markets as a particular setting in which to study this trade-off. In particular, we assess the role of information in the choice between certain trade at a price premium in an intermediated dealer market and contingent trade in a dark pool. Our setting consists of intrinsic traders and speculators, each endowed with heterogeneous fine-grained private information as to an asset's value, that endogenously decide between these two venues. We look for an equilibrium in this setting, and address three main questions: First, we illustrate how the choice between certain and contingent trade depends on information available to an individual agent, as well as the overall distribution of information across all agents. Second, we analyze how the premium for certain trade over contingent trade affects the strategic behavior of traders. Finally, we investigate how the presence of the option for contingent trade affects the welfare of the market in the presence of competitive market makers.