

Economic Theory, Decision Theory and Experimental Economics  
Seminar

## Cream skimming in financial markets

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### Abstract

We propose a model where agents choose to become entrepreneurs or informed dealers in financial markets. Agents incur costs to become dealers and develop skills for valuing assets. The financial sector comprises a transparent exchange, where uninformed agents trade, and an opaque over-the-counter (OTC) market, where dealers offer attractive terms for the best assets. Dealers provide incentives for entrepreneurs to originate good assets, but the opaqueness of the OTC market allows dealers to extract rents. By siphoning out good assets, the OTC market lowers the quality of assets in the exchange. In equilibrium, dealers' rents are excessive and attract too much talent to Finance.