The taxation of decentralized trade with endogenous information: Theory and test

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Abstract

This paper shows that a transaction tax and a profit (capital gains) tax have opposite implications for information acquisition and trade in decentralized markets. A transaction tax increases the incentive to acquire private information. It reduces the probability of trade in equilibrium with information acquisition and adverse selection. Furthermore, a transaction tax increases the range of information costs where the equilibrium exhibits adverse selection. The exact opposite holds for a profit tax. We use a change of the transaction tax in one segment of Singapore's housing market in 2006 as a policy experiment. The empirical findings based on a difference-in-difference analysis are consistent with the theoretical implications.