

Can Inefficient Traders Create Value?

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ABSTRACT: I examine the aggregate expected profit generated by informed traders of diverse ability in a competitive market. I assume that efficient traders get perfect information on asset values whereas inefficient traders get noisy information. In the presence of order size restrictions, I show that the aggregate expected profit generated by efficient and inefficient traders together can be higher than that generated by efficient traders alone. Thus, inefficient traders can create value in a constrained trading environment.