

# Asset Liquidity, Information Acquisition, and Monetary Policy

Xinchan Lu  
University of California, Riverside

This version: October 2022

## **Abstract**

I develop a framework to study the private information acquisition about the quality of liquid assets in trading and exchanges. With increasing incentives to acquire private information, the information asymmetries and the adverse-selection problem in the economy become more severe. I find that an increase in the severity of asymmetric information deteriorates asset liquidity but has an ambiguous effect on social welfare. I investigate how economic fundamentals and monetary policy affect the agent's incentive to acquire private information. Furthermore, an increase in the nominal interest rate has an ambiguous effect on asset liquidity. In Pareto efficiency, the monetary authority implements the Friedman rule.

**Keywords:** Liquidity, Adverse selection, Information acquisition, Monetary policy

**JEL Classification:** D82, D83, E40, E50