Abstract

I study a generalized OLG economy where asymmetrically informed agents have arbitrary investment horizons. As horizons increase, the age-adjusted risk aversion of investors fall, and the risk transfer from forced liquidators into voluntary buyers drops. Two equilibria coexist for long enough horizons: a stable, low volatility equilibrium, and an unstable one with higher volatility. Along the stable equilibrium, longer horizons raise prices, lower volatility, and incite aggressive trading by the informed investors, which impound their knowledge into prices and improve market efficiency. For short horizons, cautious trading disaggregates information from prices, and the economy approaches one with no private information.